

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF IRONWOOD, MICHIGAN	County GOGEBIC
Audit Date 6/30/05	Opinion Date 9/30/05	Date Accountant Report Submitted to State: 12/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

RECEIVED
DEPT. OF TREASURY

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

DEC 28 2005

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) JOKI, MAKELA & POLLACK, PLLC			
Street Address 301 N SUFFOLK ST	City IRONWOOD	State MI	ZIP 49938
Accountant Signature <i>Joki, Makela & Pollack, PLLC</i>		Date 12/21/05	

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JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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IRONWOOD, MICHIGAN 49938-2027

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
City of Ironwood, Michigan
Ironwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Ironwood, Michigan as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of City of Ironwood, Michigan's primary government, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the City of Ironwood, Michigan, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City of Ironwood, Michigan's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Ironwood Housing Commission, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City of Ironwood, Michigan's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Ironwood, Michigan, as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of City of Ironwood, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where

applicable; thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2005, on our consideration of City of Ironwood, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, City of Ironwood, Michigan, restated its governmental funds net assets, effective July 1, 2004, to reflect accumulated depreciation for prior years of its library books as required by generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 6 through 14 and pages 78 and 79 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ironwood, Michigan's primary government basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Statements of Application of Block Grant Funds are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and by U.S. Department of Housing and Urban Development and are also not a required part of the basic financial statements of City of Ironwood, Michigan. The Other Financial Information and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the statements of application of block grant funds has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the years ended June 30, 2002, 2003, 2004 and 2005, and, in our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Joti, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

Management's Discussion and Analysis

This section of the City of Ironwood, Michigan's (City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended June 30, 2005. It is to be read in conjunction with the City's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2005.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the City as a whole. The statements are prepared using the accrual method of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the City's assets and liabilities except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental and business-type activities of the City that include all services performed by the City. These activities are funded primarily by property taxes, charges for services and by federal and state grants.

The statement of net assets shows the City's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the City. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the City; the greater the net asset figure, the healthier the financial position of the City generally is. It helps management determine if the City will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the City. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the City.

Fund Financial Statements

The City's fund financial statements show detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the General Fund, Major Street Fund, Water Utility Fund, Sewer Utility Fund and Internal Service Fund. All other funds are considered nonmajor and are reported as one column.

Fund Financial Statements (Continued)

Governmental funds are reported in the fund financial statements and contain the same functions reported as governmental activities in the government-wide financial statements. However, the fund statements provide a different view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds include the same functions reported as business-type activities in government-wide financial statements. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Because the City's internal service funds primarily serve other City functions, they are included within the governmental activities of the government-wide financial statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Fiduciary funds such as the employee pension plans are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets

The following are condensed statements of net assets with a detailed analysis of the statements below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

June 30, 2005			
Primary Government			
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 1,420,321	\$ 158,008	\$ 1,578,329
Receivables	653,954	168,075	822,029
Current portion of notes receivable	59,140		59,140
Other current assets	<u>330,464</u>	<u>56,574</u>	<u>387,038</u>
Total Current Assets	\$ 2,463,879	\$ 382,657	\$ 2,846,536
Noncurrent Assets:			
Notes receivable, net of current portion	\$ 855,126		\$ 855,126
Restricted cash	26,715	\$ 254,453	281,168
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		40,002	40,002
Capital assets, net of accumulated depreciation	<u>5,472,353</u>	<u>6,566,609</u>	<u>12,038,962</u>
Total Noncurrent Assets	\$ 6,354,194	\$ 9,490,580	\$ 15,844,774
Total Assets	<u>\$ 8,818,073</u>	<u>\$ 9,873,237</u>	<u>\$ 18,691,310</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 130,628	\$ 133,407	\$ 264,035
Deferred revenues and deposits	320,000	29,427	349,427
Other current liabilities	146,758	34,540	181,298
Current portion of long-term liabilities	<u>341,692</u>	<u>151,620</u>	<u>493,312</u>
Total Current Liabilities	\$ 939,078	\$ 348,994	\$ 1,288,072
Long-term liabilities (net of current portion):			
Compensated absences	\$ 460,850	\$ 171,334	\$ 632,184
Bonds, notes and contracts payable	<u>2,064,801</u>	<u>1,965,478</u>	<u>4,030,279</u>
	<u>\$ 2,525,651</u>	<u>\$ 2,136,812</u>	<u>\$ 4,662,463</u>
Total Liabilities	<u>\$ 3,464,729</u>	<u>\$ 2,485,806</u>	<u>\$ 5,950,535</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>June 30, 2005</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
NET ASSETS			
Investment in capital assets, net			
of related debt	\$ 3,149,989	\$ 4,467,159	\$ 7,617,148
Restricted	60,519	254,453	314,972
Unrestricted	<u>2,142,836</u>	<u>2,665,819</u>	<u>4,808,655</u>
Total Net Assets	<u>\$ 5,353,344</u>	<u>\$ 7,387,431</u>	<u>\$ 12,740,775</u>

The City's net assets are \$12,740,775 at June 30, 2005. Capital assets, net of related debt are \$7,617,148. This figure is derived by taking the original costs of the City's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets. Infrastructure assets capitalized by the City during the year ended June 30, 2005, were \$300,840.

Restricted net assets are restricted for debt service.

The unrestricted net assets are \$4,808,655 as of June 30, 2005. This is the net accumulated results of the current and past years' operations. The nature of the City's operations is based on property taxes, charges for services, state aid, federal grants and local funds received to fund various programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

<u>June 30, 2004</u>			
<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Current Assets:			
Cash and investments	\$ 1,644,227	\$ 116,651	\$ 1,760,878
Receivables	583,251	197,978	781,229
Other current assets	302,706	(40,435)	262,271
Current portion of notes receivable	<u>40,332</u>		<u>40,332</u>
Total Current Assets	\$ 2,570,516	\$ 274,194	\$ 2,844,710
Noncurrent Assets:			
Notes receivable, net of current portion	\$ 693,841		\$ 693,841
Restricted cash		\$ 252,000	252,000
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		48,058	48,058
Capital assets, net of accumulated depreciation	<u>5,409,837</u>	<u>6,308,862</u>	<u>11,718,699</u>
Total Noncurrent Assets	\$ 6,103,678	\$ 9,238,436	\$ 15,342,114
Total Assets	<u>\$ 8,674,194</u>	<u>\$ 9,512,630</u>	<u>\$ 18,186,824</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 140,961	\$ 71,627	\$ 212,588
Deferred revenues and deposits	578,155	26,381	604,536
Other current liabilities	31,964	36,522	68,486
Current portion of long-term liabilities	<u>317,169</u>	<u>131,087</u>	<u>448,256</u>
Total Current Liabilities	\$ 1,068,249	\$ 265,617	\$ 1,333,866
Long-term liabilities (net of current portion):			
Compensated absences	\$ 564,363	\$ 159,277	\$ 723,640
Bonds, notes and contracts payable	<u>2,503,436</u>	<u>2,099,450</u>	<u>4,602,886</u>
	<u>\$ 3,067,799</u>	<u>\$ 2,258,727</u>	<u>\$ 5,326,526</u>
Total Liabilities	<u>\$ 4,136,048</u>	<u>\$ 2,524,344</u>	<u>\$ 6,660,392</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>June 30, 2004</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
NET ASSETS			
Investment in capital assets, net of related debt	\$ 2,589,232	\$ 4,041,803	\$ 6,631,035
Restricted	79,839	252,000	331,839
Unrestricted	<u>1,869,075</u>	<u>2,694,483</u>	<u>4,563,558</u>
Total Net Assets	<u>\$ 4,538,146</u>	<u>\$ 6,988,286</u>	<u>\$ 11,526,432</u>

The City's net assets are \$11,526,432 at June 30, 2004. Capital assets, net of related debt are \$6,631,035. Infrastructure assets capitalized by the City during the year ended June 30, 2004, were \$647,719. The unrestricted net assets are \$4,563,558 as of June 30, 2004.

Restricted net assets are restricted for debt service.

Investment in capital assets, net of related debt were previously reported as \$7,204,425 at June 30, 2004. They were reduced by \$573,390, to \$6,631,035, by recognizing prior year accumulated depreciation on library books.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities

The results of operations for the City as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal year.

<u>Year ended June 30, 2005</u>			
<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenue:			
Program Revenues:			
Charges for services	\$ 297,640	\$ 2,957,787	\$ 3,255,427
Operating grants	1,194,588		1,194,588
Capital grants	235,510	118,168	353,678
General Revenues:			
Federal and state grants	1,159,167		1,159,167
Property taxes	1,630,464		1,630,464
Other	<u>297,301</u>	<u>40,949</u>	<u>338,250</u>
Total Revenue	\$ 4,814,670	\$ 3,116,904	\$ 7,931,574
Program expenses:			
Governmental activities	\$ 3,999,472		\$ 3,999,472
Business-type activities	<u> </u>	<u>\$ 2,717,759</u>	<u>2,717,759</u>
Total Program Expenses	\$ 3,999,472	\$ 2,717,759	\$ 6,717,231
Increase in Net Assets	<u>\$ 815,198</u>	<u>\$ 399,145</u>	<u>\$ 1,214,343</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities (Continued)

	<u>Year ended June 30, 2004</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenue:			
Program Revenues:			
Charges for services	\$ 368,949	\$ 3,115,407	\$ 3,484,356
Operating grants	1,623,356	7,500	1,630,856
Capital grants	511,191		511,191
General Revenues:			
State grants	922,782		922,782
Property taxes	1,596,492		1,596,492
Other	<u>240,367</u>	<u>3,097</u>	<u>243,464</u>
Total Revenue	\$ 5,263,137	\$ 3,126,004	\$ 8,389,141
Program expenses:			
Governmental activities	\$ 4,504,196		\$ 4,504,196
Business-type activities		<u>\$ 2,862,517</u>	<u>2,862,517</u>
Total Program Expenses	\$ 4,504,196	\$ 2,862,517	\$ 7,366,713
Increase in Net Assets	<u>\$ 758,941</u>	<u>\$ 263,487</u>	<u>\$ 1,022,428</u>

The City had an overall increase in net assets of \$1,214,343 and \$1,022,428 for the years ended June 30, 2005 and 2004. The largest increase in the net assets for the business-type activities were due to operations of the Water and Sewer Utility Funds. The largest increase in the net assets for governmental activities were due to capital outlay expenditures capitalized in the Major Street Fund. Starting July 1, 2003, the City began capitalizing infrastructure capital outlay instead of expensing these items. Operating grants and contributions continue to be recognized as program revenues.

The City's revenues totaled \$ 7,931,574 and \$8,389,141 for the years ended June 30, 2005 and 2004, respectively.

The City's total cost to fund all governmental activities was \$3,999,472 and \$4,504,196 and business-type activities was \$2,717,759 and \$2,862,517 for the years ended June 30, 2005 and 2004, respectively. A majority of these costs were funded by property taxes and state and federal grants. This shows the City has reliance on property taxes and state and federal grants to provide future funding for their programs and administrative costs.

Governmental Fund Budgetary Items

During the year, the City revised its original budget several times to account for the changing environment of funding sources and spending needs. The most significant budget revisions were in the area of operating transfers out. The City had no significant areas where it overspent its budget during the year ended June 30, 2005. A schedule showing the City's original budget, final budget and the actual results is included as required supplementary information in the financial section of the audit report.

Capital Assets

At June 30, 2005, the City had \$12,038,962 invested in capital assets, net of depreciation. The City's net capital assets decreased during the past fiscal year by \$253,127. Additions totaling \$911,287 were offset by depreciation charges of \$591,024 and the City restated its July 1, 2004 accumulated depreciation by \$573,390. The City reported infrastructure asset additions of \$300,840 during the year ended June 30, 2005. These consisted of street construction projects.

Debt

The City had \$5,155,775 of long-term liabilities at June 30, 2005. These amounts consist of revenue bonds payable, general obligation bonds and note payable, accrued paid time off benefits payable to employees, a financing agreement and equipment purchase contracts payable. \$493,312 will be payable within one year.

Future Considerations

The change in state aid payments and budget cuts, reliance of certain Special Revenue Funds on General Fund support, increasing health insurance costs and increasing pension costs will impact the financial condition of the City. The City has adopted a budget for the upcoming fiscal year that should not over expend its funding and should leave the City with a positive Fund Balance. The City continues to utilize grants to promote street projects and improvements to infrastructure. Cooperative and collaborative efforts have enabled shared funding sources between departments. The Water Utility Fund will finance some major capital improvements in the upcoming year. These improvements will be paid for with federal grants and monies the City has set aside for improvement projects.

Component Unit

Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

Contacting the City

If you have any questions about this report or need additional information, contact the City offices at City of Ironwood, 213 South Marquette Street, Ironwood, MI 49938; telephone number (906) 932-5050.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF
CITY OF IRONWOOD,
JUNE 30,

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 804,468	\$ 158,008	\$ 962,476
Investments	615,853		615,853
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts	653,954	168,075	822,029
Notes	914,266		914,266
Internal balances	141,559	(141,559)	
Inventories	46,012	198,133	244,145
Prepaid expenses	142,893		142,893
Capital assets:			
Land, buildings, equipment and infrastructure	\$ 13,496,981	\$ 11,275,733	\$ 24,772,714
Less allowances for depreciation	(8,024,628)	(4,816,924)	(12,841,552)
Construction in progress		107,800	107,800
	\$ 5,472,353	\$ 6,566,609	\$ 12,038,962
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Deferred loan charges and bond discount		40,002	40,002
Restricted cash	26,715	254,453	281,168
Total Assets	\$ 8,818,073	\$ 9,873,237	\$ 18,691,310

NET ASSETS

MICHIGAN

2005

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
LIABILITIES			
Accounts payable	\$ 130,628	\$ 133,407	\$ 264,035
Salaries and fringes	107,153		107,153
Undistributed tax collections	13,738		13,738
Interest payable	25,867	34,540	60,407
Deferred revenues and deposits	320,000	29,427	349,427
Long-term debt:			
Compensated absences:			
Due within one year	\$ 84,129	\$ 17,648	\$ 101,777
Due beyond one year	460,850	171,334	632,184
	\$ 544,979	\$ 188,982	\$ 733,961
Bonds, notes payable and			
equipment contracts payable:			
Due within one year	\$ 257,563	\$ 133,972	\$ 391,535
Due beyond one year	2,064,801	1,965,478	4,030,279
	\$ 2,322,364	\$ 2,099,450	\$ 4,421,814
Total Liabilities	\$ 3,464,729	\$ 2,485,806	\$ 5,950,535
NET ASSETS			
Net assets:			
Invested in capital assets,			
net of related debt	\$ 3,149,989	\$ 4,467,159	\$ 7,617,148
Restricted	60,519	254,453	314,972
Unrestricted	2,142,836	2,665,819	4,808,655
Net Assets	\$ 5,353,344	\$ 7,387,431	\$ 12,740,775

The accompanying notes are an integral part of the financial statements.

STATEMENT
CITY OF IRONWOOD,
Year ended

			<u>Program Revenues</u>	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Legislative	\$ 30,476			
General government	643,183	\$ 97,074		
Public safety	1,090,058	41,629	\$ 27,917	
Public works	978,619	63,308	856,283	\$ 235,510
Recreation and culture	254,254	28,103	7,499	
Health and welfare	423,415		302,889	
Other functions	210,973	67,526		
Interest on long-term debt	141,508			
Depreciation (unallocated)	<u>226,986</u>			
Total Governmental Activities	\$ 3,999,472	\$ 297,640	\$ 1,194,588	\$ 235,510
Business-type activities:				
Water Utility	\$ 1,363,224	\$ 1,537,586		\$ 118,168
Sewer Utility	1,221,741	1,346,067		
Civic Center	<u>132,794</u>	<u>74,134</u>		
Total Business-Type Activities	\$ 2,717,759	\$ 2,957,787		\$ 118,168
Total Primary Government	\$ 6,717,231	\$ 3,255,427	\$ 1,194,588	\$ 353,678
General revenues:				
Taxes				
Licenses and permits				
State grants				
Federal grants				
Contributions from local units				
Fines and forfeits				
Interest and rents				
Other revenues				
Total General Revenues and Transfers				
Change in Net Assets				
Net assets at July 1, 2004, as previously reported				
Restatement of net assets for prior years' depreciation				
Net assets at June 30, 2004, as restated				
Net assets at June 30, 2005				

The accompanying notes are an integral part of the financial statements.

OF ACTIVITIES

MICHIGAN

June 30, 2005

<u>Net (Expense) Revenue and</u> <u>Changes in Net Assets</u> <u>Primary Government</u>		
Governmental Activities	Business-type Activities	Total
\$ (30,476)		\$ (30,476)
(546,109)		(546,109)
(1,020,512)		(1,020,512)
176,482		176,482
(218,652)		(218,652)
(120,526)		(120,526)
(143,447)		(143,447)
(141,508)		(141,508)
<u>(226,986)</u>		<u>(226,986)</u>
\$ (2,271,734)		\$ (2,271,734)
	\$ 292,530	\$ 292,530
	124,326	124,326
	<u>(58,660)</u>	<u>(58,660)</u>
\$ 0	\$ 358,196	\$ 358,196
\$ (2,271,734)	\$ 358,196	\$ (1,913,538)
\$ 1,630,464		\$ 1,630,464
21,508		21,508
923,524		923,524
235,643		235,643
13,300		13,300
70,196		70,196
54,801	\$ 3,698	58,499
<u>137,496</u>	<u>37,251</u>	<u>174,747</u>
\$ 3,086,932	\$ 40,949	\$ 3,127,881
\$ 815,198	\$ 399,145	\$ 1,214,343
\$ 5,111,536	\$ 6,988,286	\$ 12,099,822
<u>(573,390)</u>		<u>(573,390)</u>
\$ 4,538,146	\$ 6,988,286	\$ 11,526,432
\$ 5,353,344	\$ 7,387,431	\$ 12,740,775

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

	General	Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Restricted cash		\$ 26,715		\$ 26,715
Cash and cash equivalents	\$ 620,735		\$ 183,733	804,468
Investments			615,853	615,853
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts	562,737		91,217	653,954
Notes			914,266	914,266
Due from other funds	133,082	175,993	170,435	479,510
Inventories	46,012			46,012
Prepaid expenses	<u>115,471</u>	<u> </u>	<u>27,422</u>	<u>142,893</u>
	<u>\$1,478,037</u>	<u>\$ 202,708</u>	<u>\$ 2,002,926</u>	<u>\$ 3,683,671</u>
LIABILITIES AND MUNICIPAL EQUITY				
Salaries and fringes	\$ 107,153			\$ 107,153
Accounts payable	65,743	\$ 30,109	\$ 26,862	122,714
Due other funds	355,938	120,664	252,882	729,484
Undistributed tax collections	13,738			13,738
Deferred revenues	<u> </u>	<u> </u>	<u>320,000</u>	<u>320,000</u>
Total Liabilities	\$ 542,572	\$ 150,773	\$ 599,744	\$ 1,293,089
Municipal equity:				
Fund balance:				
Reserved	\$ 161,483	\$ 26,715	\$ 645,497	\$ 833,695
Unreserved	<u>773,982</u>	<u>25,220</u>	<u>757,685</u>	<u>1,556,887</u>
Total Municipal Equity	\$ 935,465	\$ 51,935	\$ 1,403,182	\$ 2,390,582
	<u>\$1,478,037</u>	<u>\$ 202,708</u>	<u>\$ 2,002,926</u>	<u>\$ 3,683,671</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

Fund balances - total governmental funds		\$ 2,390,582
--	--	--------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and
therefore, are not reported in the governmental funds.

Governmental capital assets	\$ 11,095,791	
Less accumulated depreciation	<u>(6,342,302)</u>	4,753,489

Long-term liabilities are not due and payable in the current period and
therefore are not reported as liabilities in the funds.

Accumulated absences	\$ (498,928)	
Bonds and notes payable	(1,978,302)	
Interest on long-term debt	<u>(25,867)</u>	(2,503,097)

Internal Service Fund net assets are presented in the Statement
of Net Assets as a governmental activity, but are not
included in the Combined Balance Sheet for Governmental
Funds

712,370

Net assets of governmental activities	\$ <u>5,353,344</u>
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The accompanying notes are an integral part of the
financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,412,415		\$ 218,049	\$ 1,630,464
Licenses and permits	21,508			21,508
State grants	923,524	\$ 868,757	230,535	2,022,816
Federal grants	263,560		302,889	566,449
Contributions from local units			13,300	13,300
Fines and forfeits			70,196	70,196
Charges for services	103,905		79,356	183,261
Interest and rents	139,601	504	26,005	166,110
Other revenues	<u>45,802</u>	<u>971</u>	<u>90,923</u>	<u>137,696</u>
Total Revenues	\$ 2,910,315	\$ 870,232	\$ 1,031,253	\$ 4,811,800
Expenditures:				
Current:				
Legislative	\$ 30,476			\$ 30,476
General government	548,152		\$ 116,624	664,776
Public safety	1,026,218		47,084	1,073,302
Public works	107,529	\$ 464,744	419,154	991,427
Recreation and culture	124,001		131,363	255,364
Health and welfare	91,960		331,455	423,415
Other functions	40,738	58,704	111,531	210,973
Capital outlay	83,961	300,840	22,992	407,793
Debt service	<u>298,961</u>	<u>89,035</u>	<u>163,562</u>	<u>551,558</u>
Total Expenditures	\$ 2,351,996	\$ 913,323	\$ 1,343,765	\$ 4,609,084
Excess (Deficiency) of Revenues Over Expenditures	\$ 558,319	\$ (43,091)	\$ (312,512)	\$ 202,716
Other financing sources (uses) - Operating transfers in (out)	<u>(397,692)</u>	<u>70,115</u>	<u>327,577</u>	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 160,627	\$ 27,024	\$ 15,065	\$ 202,716
Fund balance at July 1, 2004	<u>774,838</u>	<u>24,911</u>	<u>1,388,117</u>	<u>2,187,866</u>
FUND BALANCE AT JUNE 30, 2005	\$ 935,465	\$ 51,935	\$ 1,403,182	\$ 2,390,582

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

Net change in fund balance - total governmental funds		\$ 202,716
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:		
Expenditures for capital assets	\$ 407,793	
Less current year depreciation	<u>(226,986)</u>	180,807
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		434,115
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, those costs represent expenses of the current year. The net change from beginning to end of year does not affect the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.		(4,453)
Change in interest payable from beginning to end of year does not affect the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.		(5,778)
Change in Net Assets of the Internal Service Fund is reported in the Statement of Activities, but is not included in the governmental funds Statement of Revenues, Expenditures and Fund Balance.		<u>7,791</u>
Change in net assets of governmental funds		<u>\$ 815,198</u>

The accompanying notes are an integral part of the
financial statements.

COMBINED STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

	Business-Type Activities				Governmental	
	Enterprise Funds			Nonmajor	Activities	
	Water	Sewer	Pat O'Donnell	Total	Internal	Service
	Utility	Utility	Civic	Enterprise	Fund	Fund
			Center	Funds		
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 100,565	\$ 57,443		\$ 158,008		
Accounts receivable, less \$14,403 allowance for uncollectibles	86,761	81,314		168,075		
Due from other funds	116,972			116,972	\$	394,231
Inventories	<u>177,559</u>	<u>20,574</u>		<u>198,133</u>		
Total Current Assets	\$ 481,857	\$ 159,331		\$ 641,188	\$	394,231
Non Current Assets:						
Capital assets	\$ 7,273,084	\$ 2,804,634	\$ 1,198,015	\$ 11,275,733	\$	2,401,190
Less allowances for depreciation	<u>(3,296,299)</u>	<u>(932,591)</u>	<u>(588,034)</u>	<u>(4,816,924)</u>		<u>(1,682,326)</u>
	\$ 3,976,785	\$ 1,872,043	\$ 609,981	\$ 6,458,809	\$	718,864
Construction in progress	<u>107,800</u>			<u>107,800</u>		
Total Noncurrent Assets	\$ 4,084,585	\$ 1,872,043	\$ 609,981	\$ 6,566,609	\$	718,864
Other assets:						
Investment in Gogebic-Iron Wastewater Authority		\$ 2,629,516		\$ 2,629,516		
Deferred loan charges and bond discount, net of amortization	\$ 33,550	6,452		40,002		
Restricted cash:						
Bond reserve accounts	121,018	17,600		138,618		
Bond redemption accounts	<u>107,674</u>	<u>8,161</u>		<u>115,835</u>		
	\$ 262,242	\$ 2,661,729		\$ 2,923,971		
Total Assets	\$ 4,828,684	\$ 4,693,103	\$ 609,981	\$ 10,131,768	\$	1,113,095

COMBINED STATEMENT OF NET ASSETS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities				Governmental Activities Internal Service Fund
	Enterprise Funds			Total Enterprise Funds	
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		
LIABILITIES					
Current Liabilities:					
Accounts payable:					
Trade	\$ 52,536	\$ 8,910	\$ 5,987	\$ 67,433	\$ 7,914
Construction	65,974			65,974	
Accrued interest	26,830	7,710		34,540	
Due to funds	55,149	119,434	83,948	258,531	2,698
Customer deposits	29,427			29,427	
Current maturities on long-term debt	102,039	37,325	12,256	151,620	46,682
Total Current Liabilities	\$ 331,955	\$ 173,379	\$ 102,191	\$ 607,525	\$ 57,294
Long-term debt					
Compensated absences	\$ 156,461	\$ 32,521		\$ 188,982	\$ 46,051
General obligation limited tax bonds	92,505	169,152		261,657	
Revenue bonds	1,525,000	200,000		1,725,000	
Equipment contract and note payable			\$ 112,793	112,793	344,062
Less portion included in current liabilities	(102,039)	(37,325)	(12,256)	(151,620)	(46,682)
Total Noncurrent Liabilities	\$ 1,671,927	\$ 364,348	\$ 100,537	\$ 2,136,812	\$ 343,431
Total Liabilities	\$ 2,003,882	\$ 537,727	\$ 202,728	\$ 2,744,337	\$ 400,725
NET ASSETS					
Net Assets:					
Invested in capital assets, net of related debt	\$ 2,467,080	\$ 1,502,891	\$ 497,188	\$ 4,467,159	\$ 374,802
Restricted	228,692	25,761		254,453	
Unrestricted (deficit)	129,030	2,626,724	(89,935)	2,665,819	337,568
Total Net Assets	\$ 2,824,802	\$ 4,155,376	\$ 407,253	\$ 7,387,431	\$ 712,370

The accompanying notes are an integral part of the financial statements. 25

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	Business-Type Activities				Governmental Activities
	Enterprise Funds			Total Enterprise Funds	
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		Internal Service Fund
Operating revenues:					
Federal grants	\$ 118,168			\$ 118,168	
Charges for service	1,537,586	\$ 1,346,067	\$ 74,134	2,957,787	\$ 674,071
Other	<u>25,681</u>	<u>4,070</u>	<u>7,500</u>	<u>37,251</u>	<u>334</u>
	\$ 1,681,435	\$ 1,350,137	\$ 81,634	\$ 3,113,206	\$ 674,405
Operating expenses:					
Personnel services	\$ 435,793	\$ 200,010	\$ 32,472	\$ 668,275	\$ 254,991
Purchase of services	667,270	927,159	43,610	1,638,039	143,571
Materials and supplies	69,712	13,864	11,218	94,794	103,002
Provisions for depreciation	<u>115,816</u>	<u>55,474</u>	<u>43,115</u>	<u>214,405</u>	<u>149,633</u>
	\$ 1,288,591	\$ 1,196,507	\$ 130,415	\$ 2,615,513	\$ 651,197
Nonoperating revenues (expenses):					
Interest earned	\$ 392,844	\$ 153,630	\$ (48,781)	\$ 497,693	\$ 23,208
Gain on sale of equipment		380		3,698	
Debt service interest	<u>(74,633)</u>	<u>(25,234)</u>	<u>(2,379)</u>	<u>(102,246)</u>	<u>3,070</u>
	\$ (71,315)	\$ (24,854)	\$ (2,379)	\$ (98,548)	\$ (18,487)
Change in Net Assets	\$ 321,529	\$ 128,776	\$ (51,160)	\$ 399,145	\$ 7,791
	<u>2,503,273</u>	<u>4,026,600</u>	<u>458,413</u>	<u>6,988,286</u>	<u>704,579</u>
Net assets at July 1, 2004					
	\$ 2,824,802	\$ 4,155,376	\$ 407,253	\$ 7,387,431	\$ 712,370
NET ASSETS AT JUNE 30, 2005					

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	Business-Type Activities				Governmental Activities
	Enterprise Funds			Total Enterprise Funds	
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 1,588,805	\$ 1,357,548	\$ 81,634	\$ 3,027,987	\$ 638,475
Cash paid to employees and suppliers for goods and services	<u>(1,210,973)</u>	<u>(1,202,785)</u>	<u>(40,330)</u>	<u>(2,454,088)</u>	<u>(527,590)</u>
Net Cash Provided by Operating Activities	\$ 377,832	\$ 154,763	\$ 41,304	\$ 573,899	\$ 110,885
Cash flows from capital and related financing activities:					
Acquisition and construction of property and equipment	\$ (237,287)	\$ (160,298)	\$ (27,111)	\$ (424,696)	\$ (31,342)
Proceeds from sale of equipment					3,070
Principal paid on long-term debt	(90,572)	(28,501)	(12,014)	(131,087)	(68,933)
Interest paid on long-term debt	(68,785)	(25,008)	(2,379)	(96,172)	(18,487)
Federal grants received	118,168			118,168	
Proceeds from borrowing					4,807
Net Cash (Used in) Capital and Related Financing Activities	\$ (278,476)	\$ (213,807)	\$ (41,504)	\$ (533,787)	\$ (110,885)
Cash flows from investing activities - Interest earned	<u>3,318</u>	<u>380</u>		<u>3,698</u>	
Net Increase (Decrease) in Cash	\$ 102,674	\$ (58,664)	\$ (200)	\$ 43,810	\$ 0
Cash and cash equivalents at July 1, 2004	<u>226,583</u>	<u>141,868</u>	<u>200</u>	<u>368,651</u>	<u>0</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2005	\$ 329,257	\$ 83,204	\$ 0	\$ 412,461	\$ 0

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities				Governmental Activities
	Enterprise Funds			Internal Service Fund	
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center	Total Enterprise Funds	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 392,844	\$ 153,630	\$ (48,781)	\$ 497,693	\$ 23,208
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Federal grants received	\$ (118,168)			\$ (118,168)	
Depreciation	115,816	\$ 55,474	\$ 43,115	214,405	\$ 149,633
(Increase) decrease in current assets:					
Accounts receivable	22,492	7,411		29,903	
Due from other funds	36,327			36,327	(35,930)
Inventories	(23,463)	(4,139)		(27,602)	
Increase (decrease) in liabilities:					
Trade accounts payable	15,475	3,842	(4,993)	14,324	(3,430)
Due other funds	(85,722)	(71,975)	51,963	(105,734)	1,241
Customer deposits	3,046			3,046	
Compensated absences	19,185	10,520		29,705	(23,837)
Total adjustments	\$ (15,012)	\$ 1,133	\$ 90,085	\$ 76,206	\$ 87,677
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 377,832	\$ 154,763	\$ 41,304	\$ 573,899	\$ 110,885

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

	Pension Trust Funds	Agency Funds
ASSETS		
Cash	\$ 569,282	\$ 1,887
Receivables:		
Interest	40,340	
Delinquent property taxes	4,013	
Investments:		
U.S. Treasury and agency obligations	1,896,240	
Domestic corporate bonds	1,112,706	
Domestic stock and mutual funds	6,422,129	
Money market funds	<u>411,887</u>	
Total Assets	<u>\$ 10,456,597</u>	<u>\$ 1,887</u>
LIABILITIES		
Liabilities -		
Undistributed tax collections		<u>\$ 1,887</u>
NET ASSETS		
Net assets held in trust for:		
Pension benefits	\$ 10,446,167	
Postemployment health care benefits	<u>10,430</u>	
Total Net Assets	<u>\$ 10,456,597</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

Additions:		
Contributions		\$ 638,185
Net investment income		<u>704,515</u>
	Total Additions	\$ 1,342,700
Deductions:		
Retirement benefits	\$ 1,006,185	
Postemployment health care benefits	252,138	
Refunds of member contributions	16,735	
Administrative expense	<u>36,163</u>	<u>1,311,221</u>
	Net Increase	\$ 31,479
Net assets held in trust balance at July 1, 2004		<u>10,425,118</u>
	NET ASSETS HELD IN TRUST AT JUNE 30, 2005	<u>\$ 10,456,597</u>

Supplemental disclosure of net increase for the year:

Net increase (decrease) consisted of the following:

Net assets held in trust for:

Pension benefits	\$ 57,991
Postemployment health care benefits	<u>(26,512)</u>
	<u>\$ 31,479</u>

The accompanying notes are an integral part of the
financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Ironwood operates under an elected City Commission. The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The financial statements of the reporting entity include only those of City of Ironwood primary government. Its component unit, Ironwood Housing Commission, is not included in the primary government financial statements because its June 30, 2005 audited financial statements are not available to the City.

The financial reporting entity, as required by generally accepted accounting principles, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations referred to generally as component units for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

The Ironwood Housing Commission, located within the City's boundaries, provides housing to elderly individuals. The members of the governing board of the Ironwood Housing Commission are all appointed by the City of Ironwood City Commission, the Housing Commission is required to make annual payments in lieu of taxes in amounts established by the City Commission, and employees of the Housing Commission are considered to be employees of the City of Ironwood. Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

Following is a condensed statement of net assets and statement of activities as of and for the year ended June 30, 2004, the date of the most recently audited financial statements of the Ironwood Housing Commission:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Net Assets

June 30, 2004

Assets:

Cash and cash equivalents	\$ 113,920
Investments	515,048
Other current assets	25,072
Capital assets, net of allowances for depreciation	<u>3,461,551</u>

Total Assets \$ 4,115,591

Liabilities:

Accounts payable	\$ 65,462
Deferred revenues	25,837
Compensated absences	<u>10,427</u>

Total Liabilities \$ 101,726

Net Assets:

Invested in capital assets	\$ 3,461,551
Unrestricted	<u>552,314</u>

Total Net Assets \$ 4,013,865

Statement of Activities

Year ended June 30, 2004

Charges for services	\$ 336,805
Operating grants	364,597
Other revenues	<u>20,813</u>

Total Revenues \$ 722,215

Expenses	<u>856,494</u>
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Change in Net Assets \$ (134,279)

Net assets at July 1, 2003 4,148,144

Net Assets at June 30, 2004 \$ 4,013,865

The financial statements of certain other governmental organizations, as set forth below, are not included in the financial statements of the City in accordance with generally accepted accounting principles.

Educational services are provided to citizens through the local school district which is a separate governmental entity. A wastewater system constructed in part within the City's boundaries is provided to citizens through a regional wastewater authority. The financial statements of the City do not include the wastewater authority, which operates autonomously under an intergovernmental service agreement; however, the City's investment in the wastewater authority is accounted for in the Sewer Utility Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the City except for the fiduciary activities. All of the City's activities are considered to be governmental activities, business-type activities. Interfund activity including operating transfers between activities and amounts due to and from activities has been eliminated in the government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental business-type activities as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The City reports the following major funds:

General Fund – the general operating fund of the City. This fund is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund – used to account for the financial transactions of the City's major street system.

Water Utility Fund – used to account for the financial transactions of the water utility system.

Sewer Utility Fund – used to account for the financial transactions of the sewer utility system.

Internal Service Fund – used to account for the financial transactions of the City's equipment provided to other departments on a cost-reimbursement basis.

All other funds are considered to be nonmajor. They include:

Special Revenue Funds - are used by the City to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund-based Financial Statements (Continued)

Debt Service Fund - is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Funds

Enterprise Funds - are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or for activities where periodic measurement of net income is appropriate for capital maintenance, public policies, management control or other purposes.

Fiduciary Funds

Fiduciary Funds are used to account for assets held in a trustee capacity or as an agent for others.

Basis of Accounting

Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses and gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the City's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the City provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, state and federal grant revenues that are not program revenues are reported as general revenues. Internal Service Fund charges to other funds and expenses paid are eliminated from the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types and Agency Funds use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Revenues are available when they are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Property tax revenues are recognized as revenue when they are levied, with proper allowances made for estimated uncollectible accounts and delinquent accounts. Other tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due.

Proprietary, Internal Service and Fiduciary Financial Statements

Proprietary fund types, Internal Service and Pension Trust Funds use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises; revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the City applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Granting of Credit

The General Fund grants credit to the State of Michigan and various local units of government and individuals in the western Upper Peninsula of Michigan. The City also extends credit to its Cemetery Trust Fund and Enterprise Fund customers on a routine basis. In addition, the City has loaned various individuals, partnerships and corporations monies as explained in Note E below.

Cash and Cash Equivalents

Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. For purposes of the Statement of Cash Flows, cash includes all cash equivalents with a maturity of three months or less.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the Statement of Net Assets, interfund receivables and payables between funds classified as governmental activities and funds classified as business-type activities have been eliminated.

Interest Receivable

Interest on investments and certain receivables is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Inventories

Inventories for all governmental funds and proprietary funds are valued at cost (first-in, first-out).

Other Assets

Other assets held are recorded and accounted for at cost.

Restricted Cash and Investments

Enterprise Funds and the Major Street Fund, because of certain bond covenants, are required to establish and maintain prescribed amounts of restricted resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets, including land and improvements, buildings, furniture and fixtures, equipment, vehicles, library books and infrastructure assets (roads, bridges, sidewalks and similar items) are reported in the Government-wide financial statements. Capital assets are defined by the City and its component unit as assets with an acquisition cost of generally more than \$1,000 or betterments totaling \$20,000 with an estimated useful life of five or more years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for the function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method over the following useful lives (land excluded as not depreciable):

Land improvements	20 years
Buildings	25-50 years
Furniture, fixtures and other equipment	5-20 years
Vehicles	5-10 years
Library books	5 years
Roads	5-30 years
Other infrastructure	12-50 years

Long-Term Debt

The City reports long-term debt and other long-term obligations in the Government-wide Statement of Net Assets. Amounts are recorded at face value along with any accrued interest to June 30, 2005.

Pensions

The provision for pension cost is recorded on the accrual basis, and the City's policy is to fund pension costs as they accrue.

Property Tax Revenues

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Allowances are made for estimated uncollectible accounts and delinquent accounts.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues (Continued)

Property taxes attach as an enforceable lien on property as of December 31. City and School taxes are levied on the ensuing July 1, and County taxes are levied on December 1. The City bills and collects its own property taxes and also collects current rolls for the County, State, School District and Intermediate School District.

Delinquent real property taxes of the City are purchased annually by the County of Gogebic.

Vacation, Sick Leave and Other Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences either vest or accumulate and are accrued when they are earned.

Investment in Capital Assets, Net of Related Debt

This is the portion of net assets of the City that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either category above are considered unrestricted.

Fund Balance

In the fund-based financial statements the unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the tentative and required plans for future use of financial resources.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

Formal budgetary accounting is employed as a management control for all funds of the City; however, legal budgets are adopted only for the General, Special Revenue and Debt Service Funds. Thus, the budgetary financial statements included in this report do not include proprietary funds or Trust and Agency Funds. For each fund for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

The City follows these procedures in establishing data reflected in the financial statements:

1. Prior to July 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayers' comments.
3. Prior to July 1, the budget is legally enacted at the annual meeting by City Commission adoption of a resolution authorizing a General Appropriation Act for the fiscal year.
4. Any revisions to the budgeted amounts are approved by the City Commission.
5. Budgeted amounts are as originally adopted, plus amendments made on or before June 30, by the City Commission.
6. The budget expires on June 30 of the budget year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restatement of Net Assets

Effective July 1, 2004, the City restated its governmental funds net assets to reflect accumulated depreciation for prior years on its library books. The result was to decrease net assets by \$573,390.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

The City did not have any funds with a net asset deficiency at June 30, 2005. Pat O'Donnell Civic Center Operations had an unrestricted net asset deficiency of \$89,935 at June 30, 2005. That fund also had net assets invested in capital assets, net of related debt, of \$497,188 at June 30, 2005.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the City's actual expenditures and appropriations have been shown on a functional basis. The approved budgets for the City for these budgetary funds were also adopted on the functional level.

During the year ended June 30, 2005, the City incurred expenditures, which were in excess of the amounts appropriated in the General Fund for debt service of \$229,686. The City did record a federal grant revenue of \$235,643 to offset the expenditure.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Compliance with Bond Covenants

Revenue bond ordinances issued by the Water Utility, Sewer Utility and Major Street Fund require the City to segregate receipts to establish several reserve accounts. Following is a summary of required reserves and funding levels at June 30, 2005:

	<u>June 30, 2005</u>	
	<u>Required Reserve</u>	<u>Reserve Balance</u>
Water and Sewer Utility:		
1996 Water Supply System Revenue Bonds:		
Bond Reserve Account	\$ 99,500	\$ 121,018
Bond Redemption Account	36,670	80,085
1999 Water Supply System Revenue Bonds:		
Bond Redemption Account	14,219	14,219
2000 Water Supply System Revenue Bond:		
Bond Reserve Account	9,000	9,000
Bond Redemption Account	4,370	4,370
2000 Sewage Disposal System Revenue Bonds:		
Bond Reserve Account	16,000	17,600
Bond Redemption Account	<u>2,414</u>	<u>8,161</u>
	\$ 182,173	\$ 254,453
Major Street Fund -		
2000 Michigan Transportation Fund Bonds -		
Debt Service Account	<u>22,259</u>	<u>26,715</u>
TOTALS	<u>\$ 204,432</u>	<u>\$ 281,168</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH AND INVESTMENT INFORMATION

Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately presented on the balance sheet as "Cash and cash equivalents" and "Restricted cash". Total deposits in financial institutions of the primary government at June 30, 2005, totaled \$1,773,250 of which \$134,219 was covered by depository insurance and \$1,639,031 exceeded insurance limits or were in accounts not covered by depository insurance.

All deposits at June 30, 2005, were made in accordance with State of Michigan statutes and under authorization of the City Commission.

Investments

State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks. All investments were made in accordance with State of Michigan statutes and under authorization of the City Commission. Investments are stated at fair market value.

The City's investments are categorized as Category 1 indicating the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the agent.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable were comprised of the following at June 30, 2005:

Fund

PRIMARY GOVERNMENT

General:

Delinquent taxes	\$	88,083	
State of Michigan		460,823	
Special assessments		6,001	
Advances to Housing Commission		37,234	
Other		<u>16,350</u>	
	\$	608,491	
Less allowances for uncollectibles		<u>(45,754)</u>	\$ 562,737

Special Revenue:

Customer accounts and local units of government	\$	85,923	
Delinquent taxes		<u>2,059</u>	87,982

Debt Service - Delinquent taxes			3,235
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Enterprise:

Customer accounts	\$	182,478	
Less allowances for uncollectibles		<u>(14,403)</u>	168,075

Pension Trust:

Delinquent taxes	\$	4,013	
Interest		<u>40,340</u>	44,353

Total Primary Government \$ 866,382

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - NOTES RECEIVABLE

Special Revenue Funds

Notes receivable included in assets of the Special Revenue Fund consisted of the following at June 30, 2005:

Economic Development Fund:

5% note receivable from local corporation, payable in monthly installments of \$4,246, including interest. The note is collateralized by a security interest in equipment and machinery and by personal guarantees of the stockholders of the corporation. \$ 203,832

7% note receivable from local corporation, payable in monthly installments of \$1,132, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantees of the stockholders of the corporation. During the year ended June 30, 2005, the City granted the corporation a 6-month deferral with accruing interest being added to the end of the loan agreement. 43,478

5% note receivable from local corporation, payable in monthly installments of \$439, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantees of the stockholder of the corporation. 31,177

4.5% note receivable from local industrial development corporation, payable in monthly installments of \$2,295, including interest, commencing January 1, 2006. This note is secured by a mortgage on real property. During the year ended June 30, 2005, the City granted the corporation a 12-month deferral of all loan payments. 300,000
\$578,487

Housing Development Fund - 0% note receivable from partnership, payable in full on August 16, 2018. Note is collateralized by a second real estate mortgage on land and building in Ironwood, Michigan, and by a security interest in related furnishings, fixtures, machinery and equipment. 320,000

Downtown Ironwood Development Authority - 8.25% to 9.5% notes receivable from individuals, payable in monthly installments totaling \$937. The notes are secured by security interests in machinery and equipment. 15,779

\$914,266

Principal and interest collected on the notes receivable included in the Economic Development and Downtown Ironwood Development Authority Funds are restricted for economic development purposes. The note receivable included in the Housing Development Fund is restricted for housing development purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Changes in primary governmental and proprietary activities and component unit capital assets are summarized below:

	Balance at July 1, 2004	Additions	Disposals	Reclassifications and Adjustments	Restatement of July 1, 2004 Accumulated Depreciation	Balance June 30, 2005
PRIMARY GOVERNMENT						
<u>Governmental Activities</u>						
Land and land improvements	\$ 343,566			\$ (91,764)		\$ 251,802
Buildings	7,358,684	\$ 6,430		427,406		7,792,520
Machinery and equipment	601,842	50,931		(438,507)		214,266
Office equipment and furniture	399,694	9,724		93,552		502,970
Vehicles	673,340	23,435	\$ 27,514	81,382		750,643
Library books	618,598	16,433				635,031
Infrastructure	647,719	300,840				948,559
	\$ 10,643,443	\$ 407,793	\$ 27,514	\$ 72,069	\$ 0	\$ 11,095,791
Less accumulated depreciation	(5,497,371)	(226,986)	(27,514)	(72,069)	(573,390)	(6,342,302)
Net	\$ 5,146,072	\$ 180,807	\$ 0	\$ 0	\$ (573,390)	\$ 4,753,489
<u>Internal Service Fund</u>						
Rental equipment	\$ 2,396,398	\$ 31,342	\$ 26,550			\$ 2,401,190
Less accumulated depreciation	(1,559,243)	(149,633)	(26,550)			(1,682,326)
Total Internal Service Fund	\$ 837,155	\$ (118,291)	\$ 0			\$ 718,864
Total Governmental Activities	\$ 5,983,227	\$ 62,516	\$ 0	\$ 0	\$ (573,390)	\$ 5,472,353
<u>Proprietary Activities</u>						
<u>Major Funds</u>						
Water Utility Fund:						
Land and land rights	\$ 38,701					\$ 38,701
Water production and distribution plant	7,028,120	\$ 206,263				7,234,383
	\$ 7,066,821	\$ 206,263				\$ 7,273,084
Less accumulated depreciation	(3,180,483)	(115,816)				(3,296,299)
Construction in progress	29,320	78,480				107,800
Net	\$ 3,915,658	\$ 168,927				\$ 4,084,585
Sewer Utility Fund						
Land and land rights	\$ 7,600					\$ 7,600
Sewage transmission	2,582,979	\$ 160,298		\$ 53,757		2,797,034
	\$ 2,590,579	\$ 160,298		\$ 53,757		\$ 2,804,634
Less accumulated depreciation	(877,117)	(55,474)				(932,591)
Construction in progress	53,757			(53,757)		
Net	\$ 1,767,219	\$ 104,824		\$ 0		\$ 1,872,043

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS (CONTINUED)

	Balance at July 1, 2004	Additions	Disposals	Reclassifications and Adjustments	Restatement of July 1, 2004 Accumulated Depreciation	Balance June 30, 2005
<u>Proprietary Activities (Continued)</u>						
<u>Nonmajor Fund</u>						
Pat O'Donnell Civic Center						
Operations Fund:						
Civic Center building and						
equipment	\$ 1,170,904	\$ 27,111				\$ 1,198,015
Less accumulated depreciation	<u>(544,919)</u>	<u>(43,115)</u>				<u>(588,034)</u>
Net	\$ 625,985	\$ (16,004)				\$ 609,981
Total Proprietary Funds Activities	\$ 6,308,862	\$ 257,747	\$ 0	\$ 0	\$ 0	\$ 6,566,609
TOTAL PRIMARY GOVERNMENT	<u>\$ 12,292,089</u>	<u>\$ 320,263</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (573,390)</u>	<u>\$ 12,038,962</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F – CAPITAL ASSETS (CONTINUED)

At June 30, 2005, the Water Utility Fund had various construction projects in progress. Costs accumulated on these projects as of June 30, 2005, was \$107,800. Estimated costs to complete the utility portion of the projects are not available.

NOTE G – LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Balance at July 1, 2004	Increase	Decrease	Balance at June 30, 2005	Amount Due Within One Year
PRIMARY GOVERNMENT					
<u>Governmental Activities</u>					
Water Supply and Sewage					
Disposal System bonds	\$ 259,270		\$ 25,927	\$ 233,343	\$ 28,284
General Obligation bonds and notes	1,900,000		170,000	1,730,000	180,000
Economic Development					
Financing Agreement	235,643		235,643		
Promissory notes payable	17,504		2,545	14,959	2,597
Compensated absences	494,475	\$ 4,453		498,928	84,129
Total Governmental Activities	\$2,906,892	\$ 4,453	\$ 434,115	\$ 2,477,230	\$ 295,010
<u>Proprietary Activities</u>					
Water Supply and Sewage Disposal					
System Revenue Bonds	\$ 290,730		\$ 29,073	\$ 261,657	\$ 31,716
General obligation limited tax bonds	1,815,000		90,000	1,725,000	90,000
Promissory note payable	124,807		12,014	112,793	12,256
Compensated absences	159,277	\$ 29,705		188,982	17,648
Total Proprietary Activities	\$2,389,814	\$ 29,705	\$ 131,087	\$ 2,288,432	\$ 151,620
<u>Internal Service Fund</u>					
Equipment contracts payable	\$ 107,429		\$ 46,335	\$ 61,094	\$ 23,846
Note payable	286,000		20,000	266,000	20,000
Promissory note payable	14,759	\$ 4,807	2,598	16,968	2,836
Compensated absences	69,888		23,837	46,051	
Total Internal Service Fund	\$ 478,076	\$ 4,807	\$ 92,770	\$ 390,113	\$ 46,682
TOTAL PRIMARY GOVERNMENT	\$5,774,782	\$ 38,965	\$ 657,972	\$ 5,155,775	\$ 493,312

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT (CONTINUED)

Water Supply and Sewage Disposal System bonds total \$495,000 and are further explained in Note H below. The portion included in governmental activities, \$233,343, represents the balance to be repaid with funds other than Water Utility Fund and Sewer Utility Fund revenues. The remaining balance of \$261,657 is accounted for in the Water Utility Fund and Sewer Utility Fund.

Compensated Absences

The City has reported a \$544,979 and \$188,892 liability for accumulated unpaid vacation, sick pay and personal leave and related fringe benefits in its governmental and business-type activities, respectively at June 30, 2005.

The City reports the accumulated absence liability for governmental fund employees in the governmental activities and proprietary fund employees as a liability in the business-type activities in the government-wide financial statements. Amounts expected to be paid to employees within sixty days of year end are recorded as a liability in the financial statements of the fund which will pay for the accumulated absences in the fund-based financial statements.

Following is a summary of employment policies related to accumulated absences:

General City Operations - For employees hired on or before July 1, 1994, sick leave is earned at 1-1/12 days per month, with 2,080 hours maximum accumulation. Upon death or retirement, employees receive all unused sick leave and are paid at their current rate of pay. Upon termination other than death or retirement, employees receive 50 percent of unused sick leave.

For employees hired after July 1, 1994, sick leave is earned at 1-1/12 days per month, with 800 hours maximum accumulation. Employees receive 50 percent of unused sick leave upon termination, including death or retirement.

Vacation leave is earned at varying rates, depending upon length of service. At termination, employees receive all unused vacation leave and are paid at their current rate of pay.

Public Safety Officers - For employees hired on or before April 1, 1995, sick leave is earned at 1-1/12 days per month, with 2,080 hours maximum accumulation. Upon termination after 10 years of service, retirement or death, employees are paid for all accumulated sick leave at their current rate of pay.

For employees hired after April 1, 1995, sick leave accumulation is unlimited. Upon termination, employees are paid for up to 800 hours of accumulated sick leave at 50 percent of their current rate of pay.

Other Fringe Benefits - Included in accumulated absences liability are the related social security and retirement costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

The annual principal and interest requirements to maturity for all long-term indebtedness outstanding are as follows:

	Year ending June 30,							
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-2015</u>	<u>2016-2020</u>	<u>Total</u>
PRIMARY GOVERNMENT								
Water Supply and Sewage								
Disposal System Bonds	\$ 93,267	\$ 93,840	\$ 94,033	\$ 93,841	\$ 93,273	\$ 154,105		\$ 622,359
General Obligation								
bonds and note	271,944	272,863	278,201	282,657	266,235	842,925		2,214,825
General Obligation								
Limited Tax Bonds -								
Sewer Utility Fund	6,893	6,651	6,407	6,161	5,911	16,186		48,209
Water Supply System and								
Sewer Disposal System								
Revenue Bonds	157,808	159,275	160,575	161,575	157,420	888,162	\$ 584,473	2,269,288
Equipment Contracts	26,456	16,509	16,509	6,999				66,473
Note Payable	32,160	31,210	30,260	34,191	33,004	147,206	31,736	339,767
Promissory notes								
payable	<u>19,720</u>	<u>19,720</u>	<u>19,720</u>	<u>19,720</u>	<u>19,720</u>	<u>57,242</u>		<u>155,842</u>
	<u>\$ 608,248</u>	<u>\$ 600,068</u>	<u>\$ 605,705</u>	<u>\$ 605,144</u>	<u>\$ 575,563</u>	<u>\$ 2,105,826</u>	<u>\$ 616,209</u>	<u>\$ 5,716,763</u>

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE

Gogebic County Water Supply System No. 1 Bonds, Series 1990

On August 1, 1990, Gogebic County, Michigan, issued \$370,000 of Gogebic County Water Supply System No. 1 (City of Ironwood) Bonds, Series 1990, to finance a Department of Public Works capital outlay project. The bonds are limited tax general obligation bonds issued under provisions of Act 185, Public Acts of Michigan, 1957, as amended, and are payable primarily from the proceeds of certain specified contractual payments to be made to Gogebic County by City of Ironwood pursuant to a contract referred to in the bonds. The City has pledged its full faith and credit for the payment of its contractual payments. All of the bonds were purchased by and are payable to National City Bank.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Gogebic County Water Supply System No. 1 Bonds, Series 1990 (Continued)

The City is accounting for a portion of these bonds and the related assets paid for, in part, from proceeds of the bonds in its Water Utility Fund. The portion of bond proceeds used for street improvements is being accounted for in its governmental activities.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	7.25%	\$ 25,000	\$ 11,952	\$ 36,952
2007	7.30%	25,000	10,133	35,133
2008	7.30%	30,000	8,125	38,125
2009	7.40%	30,000	5,920	35,920
2010	7.40%	30,000	3,700	33,700
2011	7.40%	<u>35,000</u>	<u>1,295</u>	<u>36,295</u>
		<u>\$ 175,000</u>	<u>\$ 41,125</u>	<u>\$ 216,125</u>

At June 30, 2005, outstanding bonds payable were accounted for as follows:

Water Utility Fund	\$ 92,505
Governmental activities	<u>82,495</u>
	<u>\$ 175,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Gogebic County Sewage Disposal System No. 1 Bonds, Series 1991

On August 1, 1991, Gogebic County, Michigan, issued \$600,000 of Gogebic County Sewage Disposal System No. 1 (City of Ironwood) Bonds, Series 1991, to finance a Department of Public Works capital outlay project. The bonds are limited tax general obligation bonds issued under provisions of Act 185, Public Acts of Michigan, 1957, as amended, and are payable primarily from the proceeds of certain specified contractual payments to be made to Gogebic County by City of Ironwood, pursuant to a contract referred to in the bonds. The City has pledged its full faith and credit for the payment of its contractual payments. All of the bonds were purchased by and are payable to Roney & Co., Detroit, Michigan.

The City is accounting for a portion of these bonds and the related assets paid for, in part, from proceeds of the bonds in its Sewer Utility Fund. The portion of bond proceeds used for street and drainage improvements is being accounted for in its governmental activities.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	6.90%	\$ 35,000	\$ 21,315	\$ 56,315
2007	7.00%	40,000	18,707	58,707
2008	7.00%	40,000	15,908	55,908
2009	7.05%	45,000	12,921	57,921
2010	7.05%	50,000	9,573	59,573
2011	7.10%	55,000	5,857	60,857
2012	7.10%	<u>55,000</u>	<u>1,953</u>	<u>56,953</u>
		<u>\$ 320,000</u>	<u>\$ 86,234</u>	<u>\$ 406,234</u>

At June 30, 2005, outstanding bonds payable were accounted for as follows:

Sewer Utility Fund	\$ 169,152
Governmental activities	<u>150,848</u>
	<u>\$ 320,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1995 General Obligation Unlimited Tax Bonds

On July 18, 1995, City of Ironwood issued \$2,000,000 of 1995 General Obligation Unlimited Tax Bonds to be used to finance the costs of renovating the Memorial Building.

The bonds are issued under the authority of Act 279, Michigan Public Acts of 1909, as amended, and Act 202, Michigan Public Acts of 1943, as amended. The bonds pledge the full faith and credit of the City for payment of the principal and interest thereon and are payable from ad valorem taxes which may be levied on all taxable property within the boundaries of the City without limitation as to rate or amount for such purpose. Bonds maturing in the years 2008 to 2015 are callable. All of the bonds were purchased by and are payable to Kemper Securities, Inc.

MBIA Insurance Corporation, the insurer, an operating subsidiary of MBIA, Inc. domiciled in the State of New York, has issued an insurance policy which unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City of an amount equal to the principal and interest on the bonds as such payments shall become due but shall not be so paid. The policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any bond.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	5.125%	\$ 95,000	\$ 68,309	\$ 163,309
2007	5.200%	100,000	63,440	163,440
2008	5.300%	110,000	58,240	168,240
2009	5.400%	115,000	52,410	167,410
2010	5.500%	120,000	46,200	166,200
2011	5.500%	130,000	39,600	169,600
2012	5.500%	135,000	32,450	167,450
2013	5.500%	145,000	25,025	170,025
2014	5.500%	150,000	17,050	167,050
2015	5.500%	<u>160,000</u>	<u>8,800</u>	<u>168,800</u>
		<u>\$ 1,260,000</u>	<u>\$ 411,524</u>	<u>\$ 1,671,524</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1999 General Obligation Unlimited Tax Note

On April 20, 1999, the City borrowed \$132,500 from Rural Development Services, Department of Agriculture at an interest rate of 4.75% to purchase a new fire truck. The note requires semiannual interest payments on December 1 and June 1 with principal due December 1.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 15,000	\$ 2,850	\$ 17,850
2007	15,000	2,138	17,138
2008	15,000	1,426	16,426
2009	15,000	712	15,712
	<u>\$ 60,000</u>	<u>\$ 7,126</u>	<u>\$ 67,126</u>

2000 Michigan Transportation Fund Bonds

On April 10, 2000, City of Ironwood issued \$700,000 of 2000 Michigan Transportation Fund Bonds to be used to finance the costs of street improvements.

The bonds are issued under the authority of Act 175, Public Acts of Michigan, 1952, as amended. The bonds pledge the full faith and credit of the City for payment of the principal and interest thereon and are payable from its general funds, including the levy of ad valorem taxes on all taxable property within the boundaries of the City. Bonds maturing in years 2009 and 2010 shall be subject to redemption prior to maturity, at the option of the City, on any interest payment date on or after April 1, 2008 at par. All of the bonds were purchased and are payable to Raymond James & Associates.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	Rate of Interest	Principal	Interest	Total
2006	5.00%	\$ 70,000	\$ 20,785	\$ 90,785
2007	5.00%	75,000	17,285	92,285
2008	5.00%	80,000	13,535	93,535
2009	5.00%	90,000	9,535	99,535
2010	5.30%	95,000	5,035	100,035
		<u>\$ 410,000</u>	<u>\$ 66,175</u>	<u>\$ 476,175</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

1997 Sewage Disposal System Revenue Bonds

On June 12, 2000, City of Ironwood assumed the obligation of Township of Erwin, Michigan, to pay \$65,000 of outstanding 1997 Sewage Disposal System Revenue bonds issued June 11, 1997, in exchange for ownership in sewage disposal system assets owned by Township of Erwin.

The bonds were purchased by Michigan Municipal Bond Authority and are payable from revenues generated by the Sewage Disposal System. If net revenues are not available, the Issuer shall be required to pay such amounts from its general funds and levy an ad valorem tax on all taxable property in the Township of Erwin. The Township also pledged as additional security, its State of Michigan Revenue Sharing monies.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending</u> <u>June 30,</u>	<u>Rate of</u> <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	4.80%	\$ 5,000	\$ 1,893	\$ 6,893
2007	4.85%	5,000	1,651	6,651
2008	4.90%	5,000	1,407	6,407
2009	4.95%	5,000	1,161	6,161
2010	5.05%	5,000	911	5,911
2011	5.15%	5,000	657	5,657
2012	5.25%	5,000	396	5,396
2013	5.30%	5,000	133	5,133
		<u>\$ 40,000</u>	<u>\$ 8,209</u>	<u>\$ 48,209</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Sewage Disposal System Revenue Bond, Series 2000

On April 1, 2000, City of Ironwood issued \$165,000 of Sewage Disposal System Revenue Bonds, Series 2000, to be used to finance improvements to its sewage disposal system.

The bonds are issued under the authority of Act 94, Public Acts of Michigan, 1933, as amended. The bonds are payable solely from revenues generated by the Sewage Disposal System Fund. All of the bonds were purchased by Raymond James & Associates. National City Bank of Michigan/Illinois is acting as the paying agent. Bonds maturing in year 2010 and thereafter may be redeemed at the option of the Issuer, on any interest payment date on or after April 1, 2009.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	6.00%	\$ 5,000	\$ 9,655	\$ 14,655
2007	6.00%	5,000	9,355	14,355
2008	6.00%	5,000	9,055	14,055
2009	6.00%	5,000	8,755	13,755
2010	6.00%	5,000	8,455	13,455
2011	6.00%	5,000	8,155	13,155
2012	6.00%	5,000	7,855	12,855
2013	6.00%	10,000	7,555	17,555
2014	6.00%	15,000	6,955	21,955
2015	6.00%	15,000	6,055	21,055
2016	6.00%	15,000	5,155	20,155
2017	6.05%	15,000	4,255	19,255
2018	6.05%	15,000	3,348	18,348
2019	6.10%	20,000	2,440	22,440
2020	6.10%	<u>20,000</u>	<u>1,220</u>	<u>21,220</u>
		<u>\$ 160,000</u>	<u>\$ 98,268</u>	<u>\$ 258,268</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Water Supply System Revenue Bond, Series 2000

On April 1, 2000, City of Ironwood issued \$115,000 of Water Supply System Revenue Bonds, Series 2000, to be used to finance improvements to its water supply system.

The bonds are issued under the authority of Act 194, Public Acts of Michigan, 1933, as amended. The bonds are payable solely from revenues generated by the Water Supply System Fund. All of the bonds were purchased by Raymond James & Associates. National City Bank of Michigan/Illinois is acting as the paying agent. Bonds maturing in year 2010 and thereafter may be redeemed at the option of the Issuer, on any interest payment date on or after April 1, 2009.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	6.00%	\$ 5,000	\$ 5,490	\$ 10,490
2007	6.00%	5,000	5,190	10,190
2008	6.00%	5,000	4,890	9,890
2009	6.00%	5,000	4,590	9,590
2010	6.00%	5,000	4,290	9,290
2011	6.00%	5,000	3,990	8,990
2012	6.00%	5,000	3,690	8,690
2013	6.00%	5,000	3,390	8,390
2014	6.00%	5,000	3,090	8,090
2015	6.20%	5,000	2,790	7,790
2016	6.20%	5,000	2,480	7,480
2017	6.20%	5,000	2,170	7,170
2018	6.20%	10,000	1,860	11,860
2019	6.20%	10,000	1,240	11,240
2020	6.20%	10,000	620	10,620
		<u>\$ 90,000</u>	<u>\$ 49,770</u>	<u>\$ 139,770</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1996 Water Supply System Revenue Bonds

On November 13, 1996, the City issued \$995,000 of Water Supply System Revenue Bonds to finance improvements to its water wellfield. The bonds are payable solely from revenues generated by the Water Utility Fund. All of the bonds were purchased by Bernardi Securities, Inc. National City Bank of Michigan/Illinois is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	5.1%	\$ 35,000	\$ 40,788	\$ 75,788
2007	5.2%	40,000	38,855	78,855
2008	5.3%	40,000	36,755	76,755
2009	5.4%	45,000	34,480	79,480
2010	5.4%	45,000	32,050	77,050
2011	5.4%	50,000	29,485	79,485
2012	5.5%	70,000	26,210	96,210
2013	5.5%	75,000	22,222	97,222
2014	5.6%	80,000	17,920	97,920
2015	5.6%	85,000	13,300	98,300
2016	5.6%	95,000	8,260	103,260
2017	5.6%	<u>100,000</u>	<u>2,800</u>	<u>102,800</u>
		<u>\$ 760,000</u>	<u>\$ 303,125</u>	<u>\$ 1,063,125</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1999 Water Supply System Revenue Bonds

On April 1, 1999, the City issued \$900,000 of Water Supply System Revenue Bonds to finance improvements to its water supply system. The bonds are payable solely from revenues generated by the Water Utility Fund. Funding for the bonds came from the Michigan Drinking Water Revolving Fund Loan Program. Bank One Trust Company is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund. The bonds bear an interest rate of 2.5%.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 40,000	\$ 16,875	\$ 56,875
2007	40,000	15,875	55,875
2008	45,000	14,875	59,875
2009	45,000	13,750	58,750
2010	45,000	12,625	57,625
2011	45,000	11,500	56,500
2012	50,000	10,375	60,375
2013	50,000	9,125	59,125
2014	50,000	7,875	57,875
2015	50,000	6,625	56,625
2016	50,000	5,375	55,375
2017	55,000	4,125	59,125
2018	55,000	2,750	57,750
2019	<u>55,000</u>	<u>1,375</u>	<u>56,375</u>
	<u>\$ 675,000</u>	<u>\$ 133,125</u>	<u>\$ 808,125</u>

Economic Development Financing Agreement

On December 1, 1998, the City entered into an Economic Development Financing Agreement through the Michigan Jobs Commission to finance infrastructure improvements and to create new jobs in a designated Renaissance Zone. Total loan proceeds received as of June 30, 2005, were \$235,643. The agreement accrues interest at 5% per annum for a period of 10 years commencing February 1, 2004.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Economic Development Financing Agreement (Continued)

The City will earn credits of \$5,000 for each qualifying new job created. The credits are applied to accrued interest and principal. Maximum credits shall not exceed the loan amount plus accrued interest.

During the year ended June 30, 2005, the City was notified by the Michigan Jobs Commission that it converted the entire \$235,643 from a loan to a grant. Upon final authorization, the City recorded this as a grant revenue. There will be no future debt service requirements.

Equipment Contracts Payable

Equipment contracts payable of \$61,094 included in liabilities of the Equipment Depot Fund consist of installment purchase contracts payable to a bank and various financing companies at rates of interest varying from 4.79% to 6%. The obligations are collateralized by security interests in equipment.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 23,846	\$ 2,610	\$ 26,456
2007	14,809	1,700	16,509
2008	15,655	854	16,509
2009	<u>6,784</u>	<u>215</u>	<u>6,999</u>
	<u>\$ 61,094</u>	<u>\$ 5,379</u>	<u>\$ 66,473</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Note Payable to Rural Development Services

The note payable included in liabilities of the Equipment Depot Fund consisted of a 4.75% note payable to Rural Development Services, Department of Agriculture, United States of America entered into on November 7, 2001. The note was issued pursuant to Act 99 of the Public Acts of Michigan of 1933, to purchase equipment. The United States of America has no security interest in the equipment purchased. The City pledged to levy ad valorem taxes on all taxable property in the City, together with other funds available, sufficient to pay principal and interest payments when due.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 20,000	\$ 12,160	\$ 32,160
2007	20,000	11,210	31,210
2008	20,000	10,260	30,260
2009	25,000	9,191	34,191
2010	25,000	8,004	33,004
2011	25,000	6,816	31,816
2012	25,000	5,629	30,629
2013	25,000	4,441	29,441
2014	25,000	3,254	28,254
2015	25,000	2,066	27,066
2016	<u>31,000</u>	<u>736</u>	<u>31,736</u>
	<u>\$ 266,000</u>	<u>\$ 73,767</u>	<u>\$ 339,767</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

Promissory Notes Payable

The promissory notes payable to Northern Lights Revolving Loan Fund operated by the Michigan Technical Education Center (M-TEC) at Bay De Noc Community College included in liabilities of the City's governmental activities, and business-type activities consist of 2% notes payable used for energy improvements. The notes are payable in monthly installments of principal and interest. In addition to these payments, the City is required to remit to M-TEC, one-half of the realized energy savings from the improvements made, subject to a loan agreement.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 17,689	\$ 2,031	\$ 19,720
2007	17,409	2,311	19,720
2008	17,760	1,960	19,720
2009	18,119	1,601	19,720
2010	18,485	1,235	19,720
2011	16,631	869	17,500
2012	13,817	576	14,393
2013	14,097	296	14,393
2014	<u>10,713</u>	<u>243</u>	<u>10,956</u>
	<u>\$ 144,720</u>	<u>\$ 11,122</u>	<u>\$ 155,842</u>

NOTE I - LITIGATION

There are several pending lawsuits in which the City is involved. The City attorney estimates that any potential claims against the City resulting from such litigation, which are not covered by insurance, would not materially affect the financial statements of the City.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J - OPERATING LEASES

The City paid \$5,793 during the year ended June 30, 2005, for equipment rental under operating leases. Minimum future lease obligations under the terms of these leases are:

Year ending:	
June 30, 2006	\$ 5,577
June 30, 2007	<u>3,254</u>
	<u>\$ 8,831</u>

The City is a lessor of building space in various buildings located within its boundaries. All leases are considered to be operating leases.

NOTE K - PROPERTY TAX ADMINISTRATION FEE

In accordance with Public Act 503 of 1982, the City has established a subsidiary ledger to separately account for costs incurred in the collection, assessment and review of property tax levies. For the year ended June 30, 2005, costs incurred totaled \$57,765, and revenues from charging the administrative fee were \$56,474. Cumulative costs since inception of the subsidiary ledger have exceeded cumulative fees by \$403,124.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at June 30, 2005, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 133,082	Downtown Ironwood Development Authority Community Development Block Grant Neighborhood Preservation Program Debt Service Fund Sewer Utility Pat O'Donnell Civic Center Internal Service	\$ 9 544 45,260 250 373 83,948 2,698
	<u>\$ 133,082</u>		<u>\$ 133,082</u>
Major Street	175,993	General	175,993
Local Street	137,056	General	137,056
Drug Enforcement	3,438	General	3,438
Cemetery Trust	14,374	General	14,374
Economic Development	15,567	Downtown Ironwood Development Authority	15,567
Water Utility	\$ 116,972	Sewer Utility General	\$ 91,896 25,076
	<u>\$ 116,972</u>		<u>\$ 116,972</u>
Internal Service	\$ 394,231	Major Street Local Street Cemetery Water Utility Sewer Utility	\$ 120,664 136,238 55,015 55,149 27,165
	<u>\$ 394,231</u>		<u>\$ 394,231</u>
	<u>\$ 990,713</u>		<u>\$ 990,713</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, were made from the General Fund to Special Revenue Funds in the net amount of \$397,692.

NOTE N - RESTRICTION OF NET ASSETS

Following is a summary of restricted net assets for individual funds at June 30, 2005:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Restriction</u>
<u>Primary Government</u>		
Governmental Activities:		
Special Revenue Fund -		
Major Street Fund	Debt service	\$ 26,715
Debt Service Fund	Debt service	<u>33,804</u>
		\$ 60,519
Business-type Activities:		
Water Utility	Bond reserve and redemption	\$ 228,692
Sewer Utility	Bond reserve and redemption	<u>25,761</u>
		\$ 254,453
		<u>\$ 314,972</u>

Following is a summary of reserved fund balance for individual governmental funds for purposes of the Combined Balance Sheet:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Reserve</u>
<u>Primary Government</u>		
Governmental Activities:		
General Fund	Inventory and prepaid expenses	\$ 161,483
Special Revenue Fund:		
Library Fund	Building	76,567
Economic Development Fund	Long-term portion of notes receivable	535,126
Major Street Fund	Debt service	26,715
Debt Service Fund	Debt service	<u>33,804</u>
		<u>\$ 833,695</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O - SEGMENT INFORMATION FOR BUSINESS-TYPE ACTIVITIES

The City maintains three Enterprise Funds. Services provided include water, sewer and garbage and civic center operations. Segment information not presented in the basic financial statements for the year ended June 30, 2005, was as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Pat O'Donnell Civic Center Operations</u>
Tax revenues	\$ 0	\$ 0	\$ 0
Current capital contributions	0	0	0
Land, buildings and equipment:			
Additions	284,743	160,298	27,111
Deletions	0	0	0

NOTE P - INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY

Gogebic-Iron Wastewater Authority (the Authority) was organized in 1983 to finance and construct a regional wastewater treatment plant and sewer system (the Project). Members of the Authority are City of Ironwood and two local townships. Construction of the Project was financed principally by federal and state grants and loans to the Authority. The participating local units of government provided financing in the forms of pass-through of federal and state grants and loans and direct investment. At June 30, 2005, the City's investment in the Authority consisted of the following:

Pass-through of state grants to Authority	\$ 427,303
Share of costs not eligible for funding by federal and state grants and organizational expenses paid to Authority	1,553,866
Cumulative share of net income of Authority	<u>648,347</u>
	<u>\$ 2,629,516</u>

The City is accounting for its investment in the Authority by the equity method in the Sewer Utility Fund. The cumulative share of net income of the Authority includes the City's share of net income through June 30, 2003. Upon the adoption of GASB Statement No. 34 by the Authority during the year ended June 30, 2004, the City has determined the change in the Authority's net assets does not reflect a realistic method of increasing or decreasing its investment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P - INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY (CONTINUED)

The Authority owns the Project; however, the Project is being operating and managed by an autonomous Gogebic-Iron Wastewater Board (the Board) which is comprised of members of the Authority and City of Hurley, Wisconsin. Upon payment in full of revenue bonds issued by the Authority, title to the wastewater treatment plant will pass from the Authority to the Board. Each member of the Board will then own, in common, an undivided interest therein. Title to the collection sewer system lying within the boundaries of each local governmental unit will pass to that unit.

Condensed financial information as of and for the year ended June 30, 2005, from the Authority's most recently audited financial statements, which are available at the Authority's administrative office at 700 West Cloverland Drive, Ironwood, Michigan, follows:

	<u>Gogebic-Iron Wastewater Authority</u>	<u>Board</u>	(Memorandum Only)
Total assets	<u>\$ 17,047,063</u>	<u>\$ 119,592</u>	<u>\$ 17,166,655</u>
Total liabilities	<u>\$ 4,627,099</u>	<u>\$ 119,592</u>	<u>\$ 4,746,691</u>
Net assets	<u>\$ 12,419,964</u>	<u>\$ 0</u>	<u>\$ 12,419,964</u>
Operating revenues	\$ 1,432,120	\$ 714,632	\$ 2,146,752
Operating expenses	<u>1,759,515</u>	<u>714,825</u>	<u>2,474,340</u>
	\$ (327,395)	\$ (193)	\$ (327,588)
Net increase in the fair value of investments	12,557		12,557
Interest charges, net of investment earnings	<u>(198,981)</u>	<u>193</u>	<u>(198,788)</u>
Change in Net Assets	\$ (513,819)	\$ 0	\$ (513,819)
Net assets at July 1, 2004	<u>12,933,783</u>	<u>0</u>	<u>12,933,783</u>
NET ASSETS AT JUNE 30, 2005	<u>\$ 12,419,964</u>	<u>\$ 0</u>	<u>\$ 12,419,964</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q - SUMMARY OF 2004 TAX LEVY

Details of the City's 2004 property tax levy (excluding industrial facilities tax) are as follows:

City:

General Fund	\$ 1,313,478
Library Fund	65,305
Public Safety Retirement System Fund	280,468
Debt Service Fund	136,822
Downtown Ironwood Development Authority	<u>11,317</u>

Total City Taxes \$ 1,807,390

School	801,151
County	737,273
State Education Tax	410,467
Intermediate School District	<u>230,471</u>

Total Levy \$ 3,986,752

TAXABLE VALUATION \$ 69,761,415

Tax rate per \$1,000 valuation:

General Fund	\$ 19.2000
Library Fund	0.9549
Public Safety Retirement System Fund	4.1000
Debt Service Fund	<u>2.0000</u>

\$ 26.2549

NOTE R - RETIREMENT SYSTEMS

The City of Ironwood administers two defined benefit pension plans, the Retirement System and Public Safety Retirement System. Each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

Summary of Significant Accounting Policies

Basis of Accounting - City of Ironwood's retirement financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

	Retirement System	Public Safety Retirement System
Retirees and beneficiaries receiving benefits	55	28
Terminated plan members entitled to but not yet receiving benefits	2	0
Active plan members:		
Vested	26	2
Nonvested	24	11
Total	107	41
Number of participating employers	1	1

Retirement System Pension Plan

Plan Description - Retirement System is a single-employer defined benefit pension plan that covers the employees of the City of Ironwood, including all departments and agencies, other than Public Safety personnel. Retirement System provides retirement, disability, health insurance and death benefits to plan members and their beneficiaries. City ordinance assigns the authority to establish and amend the benefit provisions of the plan to the City Commission.

Contributions - Plan members are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The City is required to contribute at an actuarially determined rate and contributed \$118,176 for the year ended June 30, 2005. Administrative costs of Retirement System are financed through contributions and investment earnings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Retirement System Pension Plan (Continued)

All City full-time employees, other than Public Safety personnel, are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service or age 55 with 20 or more years of service are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.25% of the final average compensation. Effective for employees who retire after January 1, 1990, the annual retirement benefit is equal to total service years times 2.25% of the final average compensation. Final average compensation is the average of the employee's highest five consecutive years out of the last ten.

Benefits fully vest on reaching 10 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Employees are eligible for deferred retirement upon completion of 10 years of credited service. Benefits begin at the age member would have been eligible using credited service at time of termination. Employees are eligible for a duty disability retirement provided workers' compensation is paid. Minimum benefit is 15% of final average compensation. Employees are eligible for a non-duty disability retirement upon completion of 10 years of credited service. Benefits are computed the same as for a regular retirement. Death benefits are payable upon attaining age 55 with 10 years of credited service. Benefits are computed the same as for a regular retirement but actuarially reduced in accordance with a joint and survivor election.

Public Safety Retirement System Pension Plan

Plan Description - Public Safety Retirement System is a single-employer defined benefit pension plan that covers Public Safety personnel. Public Safety Retirement System provides retirement, disability, health insurance and death benefits to plan members. City ordinance assigns the authority to establish and amend benefit provisions to the City Commission.

The Public Safety Retirement System Fund's eligibility and vesting provisions are in accordance with State of Michigan Public Act 345, PA of 1937. Employees are eligible to receive retirement benefits at age 50 with 25 or more years of service or age 60, regardless of service. The annual retirement benefit is equal to 2.5% of the employee's final average compensation (average of highest three years out of the final five years) times number of years of service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Public Safety Retirement System Pension Plan (Continued)

Benefits fully vest on reaching ten years of service. The System also provides death and disability benefits. Benefits are established by State statute. Employees are eligible for deferred retirement upon completion of 10 years of credited service. Benefits begin on the date retirement would have occurred had the member remained in employment. Employees are eligible for a duty disability retirement payable upon the total and permanent disability in the line of service. Benefits are 50% of final average compensation. Employees are eligible for a non-duty disability retirement upon completion of 5 or more years of credited service. Benefits are 1.5% of final average compensation times years of credited service. Death benefits are payable to employees' survivors upon the death of a retired member receiving a pension based upon actuarially determined amounts. The System provides paid health insurance coverage to all members, up to age 65, retiring on or after January 1, 1990.

Two Public Safety employees took advantage of an early retirement plan offered for a limited period during the year ended June 30, 1997. The member must have had at least 20 years of service. Retirement compensation for those electing the program was calculated based on an average final compensation multiplier of 2.5%, and a final average compensation based on the best 3 of the last 5 years of service. The City will pay for the health insurance benefits until the member attains the age of 50, at which time the health insurance benefits program then provided by the Retirement System takes effect.

Contributions - Plan members are required to contribute 5% of their annual covered salary if hired on or before July 1, 1995. Employees hired after July 1, 1995, are required to contribute 9% of their salary. The City is required to contribute at an actuarially determined rate and contributed \$180,486 for the year ended June 30, 2005. Administrative costs of Public Safety Retirement System are financed through contributions and investment earnings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	(AAL) UAAL as a Percentage of Covered Payroll ((b - a)/c)
RETIREMENT SYSTEM						
June 30, 2002	\$6,132,926	\$6,602,193	\$ 469,267	93%	\$ 1,522,600	31%
June 30, 2003	6,088,814	7,075,755	986,941	86	1,591,565	62
June 30, 2004	5,993,981	7,195,718	1,201,737	83	1,579,626	76
PUBLIC SAFETY RETIREMENT SYSTEM						
June 30, 2002	\$5,370,245	\$6,814,112	\$1,443,867	79%	\$ 573,210	252%
June 30, 2003	5,178,668	6,494,723	1,316,055	80	549,091	240
June 30, 2004	5,014,778	7,424,805	2,410,002	68	476,568	506

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Retirement System		Public Safety Retirement System	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2002	\$ -0-	100%	\$132,034	100%
2003	101,121	100	165,333	100
2004	62,823	100	78,250	100

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Valuation date	June 30, 2004	June 30, 2004
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percent closed (accumulated gains and losses amortized over open period)	Level percent closed (accumulated gains and losses amortized over open period)
Remaining amortization period	Varies (10 years for gains and losses)	Varies (10 years for gains and losses)
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return *	7%	7%
Projected salary increases *	8% - 4.2%	8% - 4.2%
* Includes inflation at	4%	4%
Cost-of-living adjustments	None	None

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS

Public Safety Employees

The City provides post-retirement health care benefits, in accordance with an early retirement plan offered to Public Safety employees during the year ended June 30, 1996, to employees with at least 20 years of service. The City will pay for 100 percent of health care premiums until the member attains the age of 50, at which time the health care premiums are then provided by the Public Safety Retirement System. At June 30, 2005, no retirees met those eligibility requirements.

Expenditures for these post-retirement health care benefits are accounted for on the modified accrual basis in the General Fund. During the year ended June 30, 2005, expenditures of \$-0- were recognized by the City.

No assets have been set aside to finance future payments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Employees Covered by Retirement System

As part of the pension benefits described in Note R, the City provides post-retirement health care benefits in accordance with a resolution adopted by the City Commission, to all employees who retire from the City, up to age 65, retiring prior to March 8, 2004, under the following terms. Employees who retire on or after attaining age 55 but before attaining age 60 shall be eligible for retiree only coverage and employees who retire on or after attaining age 60 shall be eligible for retiree coverage and coverage of a spouse to whom the retiree is married on the date of his or her retirement from the City. Employees hired on or after March 8, 2004, will not be eligible for this coverage. The City contributions are financed on an actuarially determined basis through annual contributions to the Retirement System Fund and Public Safety Retirement System Fund and are included in the financial statements as part of retirement expenditures, separately labeled as post-employment health care benefits. Separate financial statements are not prepared for the post-employment health benefits portion of the Retirement Systems. The same significant actuarial assumptions, accounting policies and methods used to value investments are used to determine the City's contributions as explained in Note R.

Eligible membership consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Retirees and beneficiaries		
receiving benefits	7	15
Terminated plan members entitled		
to but not yet receiving benefits	2	0
Active plan members	<u>47</u>	<u>14</u>
	<u>56</u>	<u>29</u>

The City of Ironwood is required to provide periodic contributions to the plans at actuarially determined rates. Plan members are not required to contribute to the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS (CONTINUED)

Employees Covered by Retirement System (Continued)

Following is a summary of financial information pertaining to the plans for the year ended June 30, 2005:

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
General property taxes		\$ 105,456
Employer contributions	\$ 92,437	
Contributions by employees over age 65	21,516	296
Investment earnings		2,537
Health care benefits paid	<u>(89,940)</u>	<u>(162,198)</u>
Net increase (decrease) in net plan assets held in trust	<u>\$ 24,013</u>	<u>\$ (53,909)</u>

Investment earnings are credited to the plans based on an average investment earnings of 7%.

NOTE T - DEFERRED COMPENSATION PLANS

The City offers its employees a choice of several deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are available to substantially all full-time employees and permit employees to defer a portion of their salary until future years. Participation in the Plans is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts are, until paid or made available to the employee or other beneficiary, to be held in a trust for the exclusive benefit of plan participants and their beneficiaries.

Investments are managed by the Plans' trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants. Plan trustees include Edward Jones & Company, PEBSICO and ICMA Retirement Corporation.

Because the City does not have an established trust agreement with the Plan trustees, does not provide investment advice and does not administer the Plan, the City has not established a fiduciary relationship with the Plan. Therefore, the Plan assets are not included in the financial statements of the City.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U - RISK MANAGEMENT

Risks of Loss

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and workers' compensation claims and participates as a member in the Michigan Municipal Risk Management Authority (MMRMA) for claims relating to general liability, excess liability, auto liability, truck line liability, errors and omissions and physical damage to equipment, buildings and contents.

The MMRMA operates as a public entity risk-sharing pool for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The City is sharing risk with the other members of the MMRMA and has a self-insurance retention, excess of deductibles, of up to \$75,000. The deductible is \$250 per occurrence for auto, property and crime losses. MMRMA provides, after the self-insurance retention, reinsurance up to \$5,000,000 of occurrence-based casualty coverage and property coverage for each incident by internally assuming risks and reinsuring risks through commercial companies.

Share of Losses

The City's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The City estimates that the potential unpaid and unreported claims do not substantially exceed the amount of self-insurance retention reserves available to pay claims.

The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE -

CITY OF

Year ended

	General Fund		
	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 1,366,550	\$ 1,366,550	\$ 1,412,415
Licenses and permits	27,000	27,000	21,508
State grants	926,000	926,000	923,524
Federal grants			263,560
Charges for services	132,917	132,917	103,905
Interest and rents	118,000	118,000	139,601
Other revenues	<u>55,500</u>	<u>55,500</u>	<u>45,802</u>
Total Revenues	\$ 2,625,967	\$ 2,625,967	\$ 2,910,315
Expenditures:			
Current expenditures:			
Legislative	\$ 31,700	\$ 36,700	\$ 30,476
General government	562,348	582,348	548,152
Public safety	1,029,953	1,012,953	1,026,218
Public works	107,100	114,100	107,529
Recreation and culture	100,857	130,857	124,001
Health and welfare	111,621	101,621	91,960
Other functions	65,046	65,046	40,738
Capital outlay	83,001	83,001	83,961
Debt service	<u>69,275</u>	<u>69,275</u>	<u>298,961</u>
Total Expenditures	\$ 2,160,901	\$ 2,195,901	\$ 2,351,996
Excess (Deficiency) of Revenues Over Expenditures	\$ 465,066	\$ 430,066	\$ 558,319
Other financing sources (uses) -			
Operating transfers in (out)	<u>(530,066)</u>	<u>(460,066)</u>	<u>(397,692)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (65,000)	\$ (30,000)	\$ 160,627
Fund balance at July 1, 2004	<u>774,838</u>	<u>774,838</u>	<u>774,838</u>
FUND BALANCE AT JUNE 30, 2005	\$ 709,838	\$ 744,838	\$ 935,465

The accompanying notes are an integral part of the
financial statements.

GENERAL FUND AND MAJOR STREET FUND

IRONWOOD, MICHIGAN

June 30, 2005

<u>Major Street Fund</u>		
<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
\$ 869,245	\$ 922,145	\$ 868,757
	100	504
		<u>971</u>
\$ 869,245	\$ 922,245	\$ 870,232
\$ 570,095	\$ 570,095	\$ 464,744
61,600	61,600	58,704
284,145	302,145	300,840
<u>89,035</u>	<u>89,035</u>	<u>89,035</u>
\$ 1,004,875	\$ 1,022,875	\$ 913,323
\$ (135,630)	\$ (100,630)	\$ (43,091)
<u>135,630</u>	<u>100,630</u>	<u>70,115</u>
\$ 0	\$ 0	\$ 27,024
<u>24,911</u>	<u>24,911</u>	<u>24,911</u>
\$ 24,911	\$ 24,911	\$ 51,935

OTHER
FINANCIAL
INFORMATION

BALANCE SHEET - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

ASSETS

Cash		\$	620,735
Receivables:			
Delinquent taxes	\$	88,083	
State of Michigan		460,823	
Special assessments		6,001	
Advances to Housing Commission		37,234	
Other		<u>16,350</u>	
	\$	608,491	
Less allowances for uncollectible accounts		<u>(45,754)</u>	562,737
Due from other funds			133,082
Inventory			46,012
Prepaid expenses			<u>115,471</u>
			<u>\$ 1,478,037</u>

LIABILITIES AND FUND BALANCE

Liabilities:			
Accounts payable		\$	65,743
Salaries and fringes			107,153
Undistributed tax collections			13,738
Due other funds			<u>355,938</u>
	Total Liabilities	\$	542,572
Fund balance:			
Reserved for inventory and prepaid expenses	\$	161,483	
Unreserved		<u>773,982</u>	<u>935,465</u>
			<u>\$ 1,478,037</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Taxes:			
Property taxes	\$ 1,315,550	\$ 1,339,030	\$ 23,480
Property tax administrative fees	45,000	65,761	20,761
Payment in lieu of taxes	<u>6,000</u>	<u>7,624</u>	<u>1,624</u>
	\$ 1,366,550	\$ 1,412,415	\$ 45,865
City licenses and permits	27,000	21,508	(5,492)
State grants:			
Liquor licenses	\$ 6,000	\$ 7,787	\$ 1,787
Sales tax	920,000	912,724	(7,276)
Snowmobile grant	<u></u>	<u>3,013</u>	<u>3,013</u>
	\$ 926,000	\$ 923,524	\$ (2,476)
Federal grants:			
FEMA Public Safety grant		\$ 27,917	\$ 27,917
Community Development Block grant	<u></u>	<u>235,643</u>	<u>235,643</u>
	\$ 0	\$ 263,560	\$ 263,560
Charges for services - departmental fees and services:			
Public safety	\$ 51,917	\$ 29,382	\$ (22,535)
Tourist park	20,000	22,244	2,244
Administration services	46,000	39,643	(6,357)
Sale of supplies and services	<u>15,000</u>	<u>12,636</u>	<u>(2,364)</u>
	\$ 132,917	\$ 103,905	\$ (29,012)
Interest and rents:			
Interest earned	\$ 7,500	\$ 25,222	\$ 17,722
Rentals and leases:			
Memorial building rentals	45,000	35,824	(9,176)
Garage rentals	63,000	63,308	308
Other	<u>2,500</u>	<u>15,247</u>	<u>12,747</u>
	\$ 118,000	\$ 139,601	\$ 21,601

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND (CONTINUED)

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Other revenues:			
Refunds and rebates	\$ 25,000	\$ 12,649	\$ (12,351)
Sale of property and equipment	8,000	10,951	2,951
Special assessments	7,500	7,538	38
Miscellaneous	<u>15,000</u>	<u>14,664</u>	<u>(336)</u>
	<u>\$ 55,500</u>	<u>\$ 45,802</u>	<u>\$ (9,698)</u>
TOTAL REVENUES	<u>\$ 2,625,967</u>	<u>\$ 2,910,315</u>	<u>\$ 284,348</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Legislative - City commission	\$ 36,700	\$ 30,476	\$ 6,224
General government:			
City manager	\$ 98,500	\$ 99,509	\$ (1,009)
Elections	10,000	6,263	3,737
Financial administration	115,850	115,347	503
Property tax administration	22,300	18,817	3,483
City assessor	40,880	37,520	3,360
Computer department	12,700	15,635	(2,935)
City clerk	101,836	98,938	2,898
Actuarial services	21,000		21,000
Board of review	2,300	1,429	871
City hall and grounds	<u>156,982</u>	<u>154,694</u>	<u>2,288</u>
	\$ 582,348	\$ 548,152	\$ 34,196
Public safety:			
Public safety department	\$ 983,070	\$ 993,913	\$ (10,843)
Volunteer fire department	<u>29,883</u>	<u>32,305</u>	<u>(2,422)</u>
	\$ 1,012,953	\$ 1,026,218	\$ (13,265)
Public works:			
Sidewalks	\$ 2,000	\$ 1,158	\$ 842
Street lighting	85,000	81,633	3,367
Sanitation	<u>27,100</u>	<u>24,738</u>	<u>2,362</u>
	\$ 114,100	\$ 107,529	\$ 6,571
Recreation and culture - parks and recreation	130,857	124,001	6,856
Health and welfare:			
Community development	\$ 51,122	\$ 52,382	\$ (1,260)
Code enforcement	50,499	35,678	14,821
Grant administration	<u></u>	<u>3,900</u>	<u>(3,900)</u>
	\$ 101,621	\$ 91,960	\$ 9,661

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND (CONTINUED)

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Other functions:			
Insurance and bonds	\$ 21,500	\$ 21,395	\$ 105
Labor relations	10,300	9,287	1,013
Contingencies	<u>33,246</u>	<u>10,056</u>	<u>23,190</u>
	\$ 65,046	\$ 40,738	\$ 24,308
Capital outlay:			
Computer department	\$ 10,000	\$ 5,699	\$ 4,301
City hall and grounds	11,000	10,581	419
Public safety department	25,000	27,372	(2,372)
Volunteer fire department	31,001	30,754	247
City garage	6,000	6,636	(636)
Parks and recreation	<u> </u>	<u>2,919</u>	<u>(2,919)</u>
	\$ 83,001	\$ 83,961	\$ (960)
Debt service:			
Bond principal retirement	\$ 47,000	\$ 42,906	\$ 4,094
Interest charges	22,275	20,412	1,863
Industrial park loan	<u> </u>	<u>235,643</u>	<u>(235,643)</u>
	\$ 69,275	\$ 298,961	\$ (229,686)
Total Expenditures	\$ 2,195,901	\$ 2,351,996	\$ (156,095)
Other financing uses - operating transfers out:			
Major Street Fund	\$ 100,630	\$ 70,115	\$ 30,515
Local Street Fund	279,010	255,096	23,914
Cemetery Fund	60,000	52,639	7,361
Building Inspection Fund	<u>20,426</u>	<u>19,842</u>	<u>584</u>
	\$ 460,066	\$ 397,692	\$ 62,374
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 2,655,967</u>	<u>\$ 2,749,688</u>	<u>\$ (93,721)</u>

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET -

CITY OF

June 30,

	Special Revenue Funds				
	Local Street Fund	Library Fund	Downtown Ironwood Development Authority	Community Development Block Grant Fund	Economic Development Fund
ASSETS					
Cash and cash equivalents		\$ 28,426	\$ 6,497	\$ 3,919	\$ 72,577
Investments		77,481			
Receivables:					
Accounts		85,923			
Delinquent property taxes		2,059			
Notes receivable			15,779		578,487
Due from other funds	\$ 137,056				15,567
Prepaid expenses					
Restricted cash					
	<u>\$ 137,056</u>	<u>\$ 193,889</u>	<u>\$ 22,276</u>	<u>\$ 3,919</u>	<u>\$ 666,631</u>

LIABILITIES AND FUND BALANCE

Liabilities:					
Accounts payable	\$ 818	\$ 9,029		\$ 3,375	
Due other funds	136,238		\$ 15,575	544	
Deferred revenues					
	<u>\$ 137,056</u>	<u>\$ 9,029</u>	<u>\$ 15,575</u>	<u>\$ 3,919</u>	
Fund balance:					
Reserved:					
Construction		\$ 76,567			
Debt service					
Long-term portion of notes receivable					\$ 535,126
Unreserved		108,293	\$ 6,701		131,505
	<u>\$ 137,056</u>	<u>\$ 184,860</u>	<u>\$ 6,701</u>		<u>\$ 666,631</u>
	<u>\$ 137,056</u>	<u>\$ 193,889</u>	<u>\$ 22,276</u>	<u>\$ 3,919</u>	<u>\$ 666,631</u>

The accompanying notes are an integral part of the financial statements.

NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

2005

Special Revenue Funds							Totals
Housing Development Fund	Cemetery Trust Fund	Drug Enforcement Fund	Volunteer Fire Department Fund	Neighborhood Preservation Program Fund	Building Inspections Fund	Debt Service Fund	
	\$ 3,447	\$ 5,450	\$ 2,298	\$ 30,300		\$ 30,819	\$ 183,733
	538,372						615,853
							85,923
						3,235	5,294
\$ 320,000							914,266
	14,374	3,438					170,435
				27,422			27,422
<u>\$ 320,000</u>	<u>\$ 556,193</u>	<u>\$ 8,888</u>	<u>\$ 2,298</u>	<u>\$ 57,722</u>	<u>\$ 0</u>	<u>\$ 34,054</u>	<u>\$ 2,002,926</u>
	\$ 1,178			\$ 12,462			\$ 26,862
	55,015			45,260		\$ 250	252,882
<u>\$ 320,000</u>							<u>320,000</u>
\$ 320,000	\$ 56,193			\$ 57,722		\$ 250	\$ 599,744
							\$ 76,567
						\$ 33,804	33,804
							535,126
	<u>\$ 500,000</u>	<u>\$ 8,888</u>	<u>\$ 2,298</u>				<u>757,685</u>
	<u>\$ 500,000</u>	<u>\$ 8,888</u>	<u>\$ 2,298</u>			<u>\$ 33,804</u>	<u>\$ 1,403,182</u>
<u>\$ 320,000</u>	<u>\$ 556,193</u>	<u>\$ 8,888</u>	<u>\$ 2,298</u>	<u>\$ 57,722</u>	<u>\$ 0</u>	<u>\$ 34,054</u>	<u>\$ 2,002,926</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CITY OF

Year ended

	Special Revenue Funds				
	Local Street Fund	Library Fund	Downtown Ironwood Development Authority	Community Development Block Grant Fund	Economic Development Fund
Revenues:					
Taxes		\$ 66,566	\$ 11,595		
State grants	\$ 223,036	7,499			
Federal grants				\$ 84,234	
Contributions from local units		13,300			
Fines and forfeits		70,196			
Charges for services		5,859			
Interest and investment earnings			342		\$ 14,304
Other revenues		14,462	1,105	12,178	6,589
Total Revenues	\$ 223,036	\$ 177,882	\$ 13,042	\$ 96,412	\$ 20,893
Expenditures:					
Current:					
General government					
Public safety					
Public works	\$ 419,154				
Recreation and culture		\$ 131,363			
Health and welfare:					
Community development			\$ 13,950		\$ 6,983
Housing rehabilitation				\$ 85,911	
Other - Administrative and general	58,978			10,501	2,592
Capital outlay	\$ 478,132	\$ 131,363	\$ 13,950	\$ 96,412	\$ 9,575
Debt service:		16,528			
Principal		566			
Interest and fees		74			
Total Expenditures	\$ 478,132	\$ 148,531	\$ 13,950	\$ 96,412	\$ 9,575
Excess (Deficiency) of Revenues Over Expenditures	\$ (255,096)	\$ 29,351	\$ (908)	\$ 0	\$ 11,318
Other financing sources - Operating transfers in	255,096				
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	\$ 0	\$ 29,351	\$ (908)	\$ 0	\$ 11,318
Fund balance at July 1, 2004	0	155,509	7,609	0	655,313
FUND BALANCE AT JUNE 30, 2005	\$ 0	\$ 184,860	\$ 6,701	\$ 0	\$ 666,631

The accompanying notes are an integral part of the financial statements.

CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2005

Special Revenue Funds							Totals
Housing Development Fund	Cemetery Trust Fund	Drug Enforcement Fund	Volunteer Fire Department Fund	Neighborhood Preservation Program Fund	Building Inspections Fund	Debt Service Fund	
						\$ 139,888	\$ 218,049
							230,535
				\$ 218,655			302,889
							13,300
							70,196
	\$ 61,250				\$ 12,247		79,356
	9,199					2,160	26,005
			\$ 11,423	45,166			90,923
\$ 70,449			\$ 11,423	\$ 263,821	\$ 12,247	\$ 142,048	\$ 1,031,253
\$ 116,624							\$ 116,624
		\$ 269	\$ 14,726		\$ 32,089		47,084
							419,154
							131,363
							20,933
				\$ 224,611			310,522
				39,210		\$ 250	111,531
\$ 116,624	\$ 269	\$ 14,726	\$ 263,821	\$ 32,089	\$ 250	\$ 250	\$ 1,157,211
6,464							22,992
						90,000	90,566
						72,922	72,996
\$ 123,088	\$ 269	\$ 14,726	\$ 263,821	\$ 32,089	\$ 163,172		\$ 1,343,765
\$ (52,639)	\$ (269)	\$ (3,303)	\$ 0	\$ (19,842)	\$ (21,124)		\$ (312,512)
52,639					19,842		327,577
\$ 0	\$ 0	\$ (269)	\$ (3,303)	\$ 0	\$ 0	\$ (21,124)	\$ 15,065
0	500,000	9,157	5,601	0	0	54,928	1,388,117
\$ 0	\$ 500,000	\$ 8,888	\$ 2,298	\$ 0	\$ 0	\$ 33,804	\$ 1,403,182

COMBINING STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2005

	Retirement System Fund	Public Safety Retirement System Fund	Totals
ASSETS			
Cash	\$ 430,703	\$ 138,579	\$ 569,282
Receivables:			
Interest	\$ 22,537	\$ 17,803	\$ 40,340
Delinquent property taxes		4,013	4,013
	\$ 22,537	\$ 21,816	\$ 44,353
Investments:			
U.S. Treasury and agency obligations	\$ 1,584,552	\$ 311,688	\$ 1,896,240
Domestic corporate bonds	514,801	597,905	1,112,706
Domestic stocks and mutual funds	2,951,862	3,470,267	6,422,129
Money market funds	117,749	294,138	411,887
	\$ 5,168,964	\$ 4,673,998	\$ 9,842,962
	\$ 5,622,204	\$ 4,834,393	\$ 10,456,597
NET ASSETS			
Net assets (deficiency) held in trust for:			
Pension benefits	\$ 5,645,828	\$ 4,800,339	\$ 10,446,167
Postemployment health care benefits	(23,624)	34,054	10,430
	\$ 5,622,204	\$ 4,834,393	\$ 10,456,597

A schedule of funding progress for each plan is presented in Note R to the financial statements.

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	Retirement System Fund	Public Safety Retirement System Fund	Totals
Additions:			
Contributions:			
General property taxes		\$ 285,942	\$ 285,942
Employee contributions	\$ 98,660	42,429	141,089
Employer contributions	<u>211,154</u>		<u>211,154</u>
Total Contributions	\$ 309,814	\$ 328,371	\$ 638,185
Investment income:			
Net appreciation in fair value of investments	\$ 105,926	\$ 325,047	\$ 430,973
Interest and dividends	<u>215,833</u>	<u>128,187</u>	<u>344,020</u>
	\$ 321,759	\$ 453,234	\$ 774,993
Less investment expense	<u>(34,104)</u>	<u>(36,374)</u>	<u>(70,478)</u>
Net Investment Income	\$ 287,655	\$ 416,860	\$ 704,515
Total Additions	\$ 597,469	\$ 745,231	\$ 1,342,700
Deductions:			
Retirement benefits	\$ 410,049	\$ 596,136	\$ 1,006,185
Postretirement health care benefits	89,940	162,198	252,138
Refunds of member contributions	11,698	5,037	16,735
Administrative expense	<u>17,340</u>	<u>18,823</u>	<u>36,163</u>
Total Deductions	\$ 529,027	\$ 782,194	\$ 1,311,221
Net Increase (Decrease)	\$ 68,442	\$ (36,963)	\$ 31,479
Net assets held in trust for pension benefits at July 1, 2004	<u>5,553,762</u>	<u>4,871,356</u>	<u>10,425,118</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT JUNE 30, 2005	<u>\$ 5,622,204</u>	<u>\$ 4,834,393</u>	<u>\$ 10,456,597</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
TRUST AND AGENCY FUND - CURRENT TAX COLLECTION FUND.

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

	Balance at July 1, 2004	Additions	Deductions	Balance at June 30, 2005
ASSETS				
Cash	<u>\$ 904</u>	<u>\$ 3,809,231</u>	<u>\$ 3,808,248</u>	<u>\$ 1,887</u>
LIABILITIES				
Due Ironwood Area Schools		\$ 749,155	\$ 749,155	
Due Gogebic County		675,293	675,293	
Due State of Michigan		385,032	385,032	
Due Intermediate School District		212,319	212,319	
Due other funds		1,785,542	1,785,542	
Due other units	<u>\$ 904</u>	<u>1,890</u>	<u>907</u>	<u>\$ 1,887</u>
	<u>\$ 904</u>	<u>\$ 3,809,231</u>	<u>\$ 3,808,248</u>	<u>\$ 1,887</u>

The accompanying notes are an integral part of the
financial statements.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Catalog of Domestic Assistance Number	Federal Expenditures
PRIMARY GOVERNMENT		
<u>U.S. Department of Housing and Urban Development</u>		
Passed through State of Michigan Department of Commerce - Community Development Block Grant:		
MSC-980047-EDIG	14.228	\$ 235,643
MSC-2002-0072-NPP	14.228	13,029
MSC-2004-0072-NPP	14.228	205,626
MSC-204047-PW	14.228	43,106
M-2001-0072	14.239	6,425
MSC-2004-0072-HO	14.239	<u>77,809</u>
		\$ 581,638
<u>Federal Emergency Management Agency</u>		
Passed through Michigan State Police:	83.544	
FEMA Disaster A-1413.4		\$ 75,062
FEMA Public Safety - No. EMW-2004-02833		<u>27,917</u>
		\$ <u>102,979</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>684,617</u>

See Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

-
1. Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Ironwood, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures in this schedule are in agreement with the amounts reported in the financial statements.
 2. Loans Outstanding - City of Ironwood, Michigan, had two loan balances outstanding with U.S. Department of Agriculture at June 30, 2005, for a total of \$326,000.
 3. Subrecipients - Of the federal expenditures presented in the schedule, City of Ironwood, Michigan, provided no federal awards to subrecipients.
 4. All programs are considered Type B programs, except the U.S. Department of Housing and Urban Development Program C.F.D.A. Number 14.228, which was selected as a major program, Type A, using the risk-based audit approach and the 25% low-risk auditee coverage rule.
 5. Component Unit Excluded from Schedule of Expenditures of Federal Awards

Ironwood Housing Commission, a component unit of City of Ironwood, Michigan, contracted to have its own audit for its year ended June 30, 2005. Accordingly, the Schedule of Expenditures of Federal Awards excludes any information pertaining to Ironwood Housing Commission. A copy of the Commission's Schedule of Expenditures of Federal Awards can be obtained at their offices at 515 East Vaughn Street, Ironwood, Michigan 49938.

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. 980047EDIG

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from December 1, 1998 through November 30, 2004

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Sewer improvements	\$ 38,872	\$ 38,872	
Road improvements	44,212	44,212	
Water improvements	45,484	45,484	
Power/gas improvements	72,900	72,900	
Engineering	17,175	17,175	
Contingencies	17,000	17,000	
	<u>\$ 235,643</u>	<u>\$ 235,643</u>	<u>\$ 0</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC 2002-0072NPP

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from July 1, 2002 through June 30, 2005

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Rental Rehabilitation	\$ 252,500	\$ 252,500	
Homeowner Rehabilitation	75,000	75,000	
NPP Demolition	27,000	27,000	
NPP Public Improvement	90,500	90,500	
NPP Beautification	10,000	10,000	
Home Acquisition	25,000	25,000	
Home Rehabilitation	20,000	20,000	
Administration	<u>110,000</u>	<u>110,000</u>	
	\$ 610,000	\$ 610,000	\$ 0
<u>Other Funds/Sources</u>			
Housing Rehabilitation:			
Homeowner contributions	\$ 81,875	\$ 108,382	\$ (26,507)
PIP packaging fees		600	(600)
Recapture funds		<u>5,939</u>	<u>(5,939)</u>
	<u>\$ 81,875</u>	<u>\$ 114,921</u>	<u>\$ (33,046)</u>
	<u>\$ 691,875</u>	<u>\$ 724,921</u>	<u>\$ (33,046)</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC 2004-0072NPP

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from July 1, 2004 through June 30, 2005

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Rental Rehabilitation	\$ 281,225	\$ 108,073	\$ 173,152
NPP Demolition	50,000	15,000	35,000
NPP Public Improvement	150,000	41,000	109,000
NPP Beautification	15,000	11,553	3,447
Home marketing	2,000		2,000
Administration	<u>109,275</u>	<u>30,000</u>	<u>79,275</u>
	\$ 607,500	\$ 205,626	\$ 401,874
<u>Other Funds/Sources</u>			
Leverage funds	<u>200,000</u>	<u>42,631</u>	<u>157,369</u>
	<u>\$ 807,500</u>	<u>\$ 248,257</u>	<u>\$ 559,243</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC-204047PW

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from April 1, 2005 through June 30, 2005

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Water improvements	\$ 287,200	\$ 43,106	\$ 244,094
Sewer improvements	<u>112,800</u>		<u>112,800</u>
	\$ 400,000	\$ 43,106	\$ 356,894
<u>Other Funds/Sources</u>			
City Contribution:			
Water improvements	\$ 114,000		\$ 114,000
Sewer improvements	21,500		21,500
Engineering	60,000	\$ 21,553	38,447
Materials testing	<u>4,500</u>		<u>4,500</u>
	\$ 200,000	\$ 21,553	\$ 178,447
	<u>\$ 600,000</u>	<u>\$ 64,659</u>	<u>\$ 535,341</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. M-2001-0072

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from June 1, 2002 through June 30, 2005

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Housing Rehabilitation Grants	\$ 150,000	\$ 150,000	\$ 0
Administration	<u>16,600</u>	<u>16,600</u>	<u>0</u>
	\$ 166,600	\$ 166,600	\$ 0
<u>Other Funds/Sources</u>			
Housing Rehabilitation:			
Homeowner contributions	\$ 37,500	\$ 44,861	\$ (7,361)
Recapture funds	<u> </u>	<u>2,497</u>	<u>(2,497)</u>
	\$ 37,500	\$ 47,358	\$ (9,858)
	<u>\$ 204,100</u>	<u>\$ 213,958</u>	<u>\$ (9,858)</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC-2004-0072HO

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from January 1, 2004 through June 30, 2005

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Housing Rehabilitation Grants	\$ 80,000	\$ 63,809	\$ 16,191
Administration	<u>17,500</u>	<u>14,000</u>	<u>3,500</u>
	\$ 97,500	\$ 77,809	\$ 19,691
<u>Other Funds/Sources</u>			
Housing Rehabilitation:			
Homeowner contributions	\$ 20,000	\$ 9,547	\$ 10,453
Recapture funds		<u>2,631</u>	<u>(2,631)</u>
	<u>\$ 20,000</u>	<u>\$ 12,178</u>	<u>\$ 7,822</u>
	<u>\$ 117,500</u>	<u>\$ 89,987</u>	<u>\$ 27,513</u>

SUPPLEMENTAL
REPORTS

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ironwood, Michigan, as of and for the year ended June 30, 2005, which collectively comprise City of Ironwood, Michigan's basic financial statements and have issued our report thereon dated September 30, 2005. The financial statements do not include financial data for the City of Ironwood's legally separate component unit, Ironwood Housing Commission, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City of Ironwood, Michigan's primary government. City of Ironwood, Michigan, restated its governmental funds net assets, effective July 1, 2004, to reflect accumulated depreciation for prior years of its library books. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Ironwood, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Ironwood, Michigan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ironwood, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the report of other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 30, 2005

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

Compliance

We have audited the compliance of City of Ironwood, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. City of Ironwood, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The financial statements do not include financial data for the City of Ironwood's legally separate component unit, Ironwood Housing Commission, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City of Ironwood, Michigan's primary government. City of Ironwood, Michigan, restated its governmental funds net assets, effective July 1, 2004, to reflect accumulated depreciation for prior years of its library books. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Ironwood, Michigan's management. Our responsibility is to express an opinion on City of Ironwood, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Ironwood, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Ironwood, Michigan's compliance with those requirements.

In our opinion, City of Ironwood, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of City of Ironwood, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Ironwood, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toti, Mahela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 30, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Ironwood, Michigan. However, the financial statements do not include financial data for the City of Ironwood, Michigan's legally separate component unit, Ironwood Housing Commission.
2. There was one reportable condition disclosed during the audit of the financial statements reported in the Report on Compliance and on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of City of Ironwood, Michigan, were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award programs reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for City of Ironwood, Michigan, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for City of Ironwood, Michigan, to be reported in Part C of this schedule.
7. The programs tested as major programs are the Community Development Block Grant programs, C.F.D.A. Number 14.228.
8. The threshold for distinguishing Type A programs was \$300,000. All programs were considered to be Type B programs, except the major program.
9. City of Ironwood, Michigan, was determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITION

(05-01) Segregation of Duties

During the year ended June 30, 2005, personnel assigned to perform the accounting and finance duties were also assigned cash receipt and collection functions at times due to the limited number of staff. This lack of segregation of duties can result in one person handling the collection, recording and accounting of the City of Ironwood, Michigan's finances.

Although the limited number of staff of the City of Ironwood, Michigan, makes complete segregation of duties impossible, we recommend that the cash receipt and collection functions be reviewed by management on a regular basis and the duties rotated as much as possible so the lack of separation of duties can be mitigated.

C. FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAM AUDIT

There were no findings or questioned costs disclosed during the audit of the major federal award programs.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2005

There were no findings or questioned costs relative to federal awards during the prior year audit.

JOKI, MAKELA & POLLACK, P.L.L.C.

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DEPT. OF TREASURY

DEC 28 2005

LOCAL AUDIT & FINANCE DIV.

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

We have compiled the Annual Local Unit Fiscal Report - Form F-65 (MI) of City of Ironwood, Michigan, for the year ended June 30, 2005, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Michigan Department of Treasury information that is the representation of management. We have not audited or reviewed the financial statement referred to above and, accordingly, do not express an opinion or any other form of assurance on it.

This financial statement is presented in accordance with the requirements of the State of Michigan Department of Treasury, which differ from generally accepted accounting principles. Accordingly, this financial statement is not designed for those who are not informed about such differences.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
September 30, 2005